

ANNUAL ACCOUNTS OF THE EUROPEAN COMMUNITIES

FINANCIAL YEAR 2008

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED
REPORTS ON IMPLEMENTATION OF THE BUDGET

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NOTE ACCOMPANYING THE CONSOLIDATED ACCOUNTS

The consolidated annual accounts of the European Communities for the year 2008 have been prepared on the basis of the information presented by the other institutions and bodies under Article 129.2 of the Financial Regulation applicable to the general budget of the European Communities. I hereby declare that they were prepared in accordance with Title VII of this Financial Regulation and with the accounting principles, rules and methods set out in annex to the financial statements.

I have obtained from the accounting officers of these institutions and bodies, who certified its reliability, all the information necessary for the production of the accounts that show the European Communities' assets and liabilities and the budgetary implementation.

I hereby certify that based on this information, and on such checks as I deemed necessary to sign off the accounts of the European Commission, I have a reasonable assurance that the accounts present a true and fair view of the financial position of the European Communities in all material aspects.

(signed)
Ph. Taverne
*Accounting Officer of the
European Commission*

IMPLEMENTING AND ACCOUNTING FOR THE EU BUDGET

I ANNUAL BUDGET PREPARATION

The EU Budget finances a wide range of policies and programmes throughout the Union. In accordance with the priorities set by the Member States, the Commission carries out specific programmes, activities and projects in the field. These could range from supporting education projects for the mobility of students and teachers, to projects aimed at supporting better work environment for workers in the EU, to enhance the control of the external borders.

Nearly 94% of the EU budget goes to funding such EU policies and activities, which have been agreed by all the Member States. The direct link between the annual budget and the EU policies is ensured through activity-based budgeting (ABB). The activity-based budget nomenclature, first introduced in the 2004 budget, allows for clear identification of the policy areas of the European Union and the total amount of resources allocated to each of these areas.

The 31 policy areas are subdivided into some 200 activities of which over 110 include operating budget headings and are thus reflected in the budget nomenclature as budget chapters. These policy areas are predominantly operational, since their core activities are aimed at benefiting a third-party beneficiary, each within their respective domains of activity. Other policy areas, however, are horizontal and assure the proper functioning of the Commission, such as 'Coordination and legal advice', and 'Budget'. The activity structure provides the common conceptual framework for priority setting, planning, budgeting, monitoring and reporting, with the principal aim of enhancing the efficient, economic and effective use of resources.

The internal procedure for the adoption of the draft budget starts with its preparation by the Commission before it is passed to the Council who can make amendments if considered necessary. The updated budget then goes to the European Parliament, which may propose amendments or accept or reject the current draft. Once all amendments and updates are agreed (including, if necessary, an entirely new draft proposed by the Commission) the budget is adopted in mid-December by the Parliament. The President of Parliament declares the budget adopted and it can then be implemented.

2 HOW IS THE EC FUNDED?

The EC has two main categories of funding: Own resources revenues and sundry revenues.

2.1 OWN RESOURCE REVENUES AND RECEIVABLES

Own resource revenue accrues automatically to the EU to enable it to finance its budget without the need for a subsequent decision by national authorities (in 2008 it is 92% of total revenue). The overall amount of own resources needed to finance the budget is determined by total expenditure less other revenue. The total amount of own resources cannot exceed 1.24 % of the gross national income (GNI) of the EU. Own resources can be divided into the following categories:

- (1) Traditional own resources (TOR) consist of customs duties, agricultural duties and sugar levies. These own resources are levied on economic operators and collected by Member States on behalf of the EU. However, Member States keep 25% as a compensation for their collection costs. Customs duties and agricultural duties are levied on imports of products coming from third countries, at rates based on the Common Customs Tariff. Sugar levies are paid by sugar producers to finance the export refunds for sugar. TOR usually account for around 15 % of total own resource revenue.
- (2) The own resource based on value added tax (VAT) is levied on Member States' VAT bases, which are harmonised for this purpose in accordance with Community rules. The same percentage is levied on the harmonised base of each Member State. However, the VAT base to take into account is capped at 50% of each Member State's GNI. The VAT-based resource usually accounts for around 15 % of own resource revenue.
- (3) The resource based on gross national income (GNI) is used to balance budget revenue and expenditure, i.e. to finance the part of the budget not covered by any other sources of revenue. The same percentage rate is levied on each Member States' GNI, which is established in accordance with Community rules. The GNI-based resource usually accounts for around 70% of own resource revenue.

With regard to payment of these amounts, separate accounts contain traditional own resources which, under Article 6(3)(b) of Regulation No 1150/2000, have been established by the Member States but not made available to the Communities as they have not yet been recovered or guaranteed or because they have been challenged. Each Member State sends the Commission a quarterly statement of these accounts, with the following particulars for each type of resource:

- the previous quarter's outstanding balance,
- the amounts recovered during the quarter in question,
- rectifications of the base (corrections/cancellations) during the quarter in question,
- amounts written off,
- the balance to be recovered at the end of the quarter in question.

When the traditional own resources from the separate account are recovered, they must be made available to the Commission at the latest on the first working day following the 19th day of the second month following the month during which the entitlement was recovered.

A write-down of the entitlements in the separate account must be made to reflect the situations when actual recovery is unlikely. This write-down is based on estimations made by Member States themselves in accordance with Article 6(4)(b) of Council Regulation (EC, Euratom) No 1150/2000 which states "Together with the final quarterly statement for a given year, Member States shall forward an estimate of the total amount of entitlements contained in the separate account at 31 December of that year for which recovery has become unlikely."

Based on the estimations sent by Member States, a write-down is deducted from the item for receivables from Member States on the asset side of the balance sheet. However, this does not

mean that the Commission is waiving recovery of the amounts covered by this value adjustment. Even where recovery looks very unlikely, if not virtually impossible, this does not necessarily mean that the amounts in question are lost to the Community budget as traditional own resources. This is because non-recovered entitlements are lost only if the Member State has exhausted all the avenues it is required to pursue in order to secure recovery. Where the Member State fails to do this, it is held financially liable and required to pay the amount into the Community budget in accordance with Article 17(2) of Regulation No 1150/2000.

2.2 SUNDRY REVENUES

Sundry revenues arising from the activities of the European Communities are approximately 8% of total revenue. These are, for instance, competition fines and recovery orders to private and public debtors with regard to the management of Community projects (as in the example above.) Penalty payments imposed by the Court of Justice on Member States that fail to comply with a given judgment also fall into this category. The Commission manages hundreds of thousands of projects each year and needs to establish about 12,000 recovery orders per year. Any debt not paid at the due date is subject to default interest. Where debts of Community third parties other than Member States remain unpaid, Commission (and Council) decisions imposing the obligation to pay are directly enforceable in accordance with the rules of civil procedure in force in the territory where enforcement is to be carried out. Defaulting debtors are subject to debt collecting procedures launched by the Legal Service with the help of external law firms.

3 HOW THE COMMUNITY BUDGET IS MANAGED AND SPENT

3.1 PRIMARY OPERATIONAL EXPENDITURE

The European Communities' operational expenditure covers the various headings of the financial framework and takes different forms, depending on how the money is paid out and managed. In accordance with the Financial Regulation, the Commission implements the general budget using the following methods:

Direct centralised management: this is where the budget is implemented directly by the Commission services.

Indirect centralised management: this refers to cases where the Commission confers tasks of implementation of the budget to bodies of Community law or national law, such as the Community agencies of public law or with public service missions.

Decentralised management: these are the cases where the Commission delegates certain tasks for implementation of the budget to third countries.

Shared management: under this method of management budget implementation tasks are delegated to Member States. The majority of the expenditure, this year EUR 82 billion (2007: EUR 90 billion), falls under this mode "Shared Management" involving the delegation of tasks to Member States, covering such areas as agricultural spending and Structural Actions.

Joint management: under this method, the Commission entrusts certain implementation tasks to an international organisation.

3.2 THE DIFFERENT FINANCIAL ACTORS

The **College of Commissioners** assumes collective political responsibility but in practice does not exercise itself the budget implementation powers vested in it. It delegates these tasks each year to individual civil servants accountable to the College and subject to the Financial Regulation and the Staff Regulations. The staff concerned – generally Directors-General and Heads of Service - are known as “Authorising Officers by delegation”. They in turn may further delegate budget implementation tasks to “Authorising Officers by sub-delegation”.

The responsibility of the **Authorising Officers** covers the entire management process, from determining what needs to be done to achieve the policy objectives set by the institution to managing the activities launched from both an operational and budgetary standpoint, including signing legal commitments, monitoring performance, making payments and even recovering funds, if necessary. Authorising officers must also arrange for evaluations to be carried out to analyse the viability of their proposals (ex ante evaluation) and to gauge the success and cost-effectiveness of programmes already underway (interim and ex post evaluations). The results of these evaluations are used to help improve the decision-making process and increase the transparency, accountability and cost-effectiveness of Community intervention.

Sound financial management and proper accountability are assured within each DG by the separation of management control (in the hands of the authorising officers) from internal audit and compliance control with clear internal control standards (inspired by COSO international standards), ex-ante and ex-post controls, independent internal auditing on the basis of risk assessments, and regular reporting on activities to the individual Commissioners.

The **Accounting Officer** executes payment and recovery orders drawn up by authorising officers and is responsible for managing the treasury, laying down accounting rules and methods, validating accounting systems, keeping the accounts and drawing up the institution’s annual accounts and consolidating them with those of the other consolidated entities. Furthermore, the Accounting Officer is required to sign the accounts declaring that they provide a true and fair view of the financial position.

The **Internal Auditor**, who is not a financial actor in the strict sense of the term, is appointed by an institution or body to verify the proper operation of budgetary implementation systems and procedures and to advise the institution on risk management issues. The Internal Auditor issues independent opinions on the quality of management and control systems and provides recommendations on how to improve operational procedures and promote sound financial management.

3.3 COMMITTING TO SPEND THE EU BUDGET

Once the budget is approved, DG Budget makes funding available, via the Commission’s accounting system, to the different Commission departments and the Institutions and other bodies in accordance with their policy responsibilities under a system called activity based budgeting. For example, the responsibility for managing budget lines to do with the environment would be delegated by the Commission to the head – or Director-General - of DG Environment (who in this context becomes known as the Authorising Officer by Delegation for the budget lines in question).

Before a legal commitment (for example a contract or grant agreement) can be entered into with a third party, there must be a budget line authorising the activity in question in the annual budget. There must also be sufficient funds on the budget-line in question to cover the expenditure. If these conditions are met, the funds required must be reserved in the budget by means of a budgetary commitment made in the accounting system.

Once the budgetary commitment is launched by the person responsible for the project, known as the “initiating agent”, it must follow a pre-set procedure - or “financial circuit” - which is a paper and electronic trail involving a minimum of two people (the so-called “four eyes principle”), the initiator and the verifier. The financial circuits in place provide for financial and operational checks before the commitment is approved by the Authorising Officer responsible.

No money can be spent from the Community budget unless and until the Commission or another EC body and the possible recipient of Community money have entered into a written legal commitment. Under centralised direct management, this legal commitment takes the form of either a contract with a contractor or a grant agreement with a beneficiary.

Once approved, the budgetary commitment is recorded in the budgetary accounting system and the appropriations are consumed accordingly. This, however, has no effect on the general accounts (or general ledger) since no charge has yet been incurred. This is because the accounting system of the European Communities comprises two separate but linked elements:

- (a) budget accounts, which provide a detailed record of budget implementation; and
- (b) general accounts, used to prepare the balance sheet and economic outturn.

The budget accounts chart the commitments and payments made on the 1150 or so budget lines day by day. They are based on the modified cash accounting principle, whereby an item of expense or income is only recorded in the accounts when cash is committed, paid out or received. This type of accounting is typical of the public sector whose focus has, historically, tended to be on the budget and its implementation. Each month the Commission publishes figures detailing the current state of budget implementation (spending) on the Europa website. The figures are given by financial framework heading and by policy area.

The general accounts (or general ledger) use the double-entry method of bookkeeping to show all expenditure and revenue over the financial year (and thus the economic outturn) and to establish the financial position of the EC in the form of a balance sheet of assets and liabilities at 31 December of a given year.

3.4 MAKING A PAYMENT

3.4.1 General rules

No payment can be made unless a budgetary commitment has already been approved by the Authorising Officer dealing with the operation in question. When a payment needs to be made a compulsory workflow similar to that for a budgetary commitment has to be followed. This is done in the accounting system and with a parallel paper/electronic trail. Again the process is launched by the initiating agent and ultimately approved by the authorising officer by sub-delega-

tion. Once the payment is approved, both the budgetary and the general accounts are automatically updated.

Once a payment is approved in the accounting system, the next step is for the transfer to be made to the beneficiary's account. The Commission, for example, through the treasury department of DG Budget, makes almost all of its payments by bank transfer. It has bank accounts with Member State Treasuries, Central Banks and commercial banks.

The Commission makes over one million payments a year. The Commission is a participant in SWIFT (Society for Worldwide Interbank Financial Telecommunication). Each day at least one payment run, launched under the control of the treasury department of Directorate-General for Budget, translates the approved payment orders into payment instructions that are sent automatically to the Commission banks, in order to pay the designated beneficiaries.

3.4.2 Pre-financing

Pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. It may be split into a number of payments over a period defined in the particular pre-financing agreement. The float or advance is either used for the purpose for which it was provided during the period defined in the agreement or it is repaid – if the beneficiary does not incur eligible expenditures he has the obligation to return the pre-financing advance to the European Communities. Thus pre-financing paid is not a definitive expense until the relevant contractual conditions are met and so is recorded as an asset on the balance sheet when the initial payment is made. The amount of the pre-financing asset is reduced (wholly or partially) by the acceptance of eligible costs and amounts returned. When a pre-financing amount is fully or partially accepted by the Communities, following analysis of the eligibility of a cost claim received (see below), then the accepted amount of eligible expenditure is removed from the balance sheet and taken as an expense in the economic outturn account. This may clear the pre-financing amount in whole or in part.

Pre-financing is valued at its estimated recoverable amount, taking into consideration the existence of a related guarantee attached to the pre-financing. The expected irrecoverable pre-financing is recognised as a charge in the economic outturn account and a decrease in the pre-financing carrying value in the balance sheet. Interest is generally earned on pre-financing paid out (notable exceptions include amounts paid to Member States or as pre-accession aid). The ownership of this interest designates the two categories of pre-financing existing – European Communities and Third Party. The difference between the two categories is that the interest generated by “European Communities” pre-financing amounts remains the property of the Communities and so must be returned to the Communities, while that earned on “Third Party” pre-financing is the property of the beneficiary.

3.4.3 Cost claims and eligibility of expenditure

Some time after the payment of the pre-financing, a cost claim will be received by the relevant EC body so as to justify how the pre-financing amount was spent by the beneficiary in accordance with the contract. The rhythm of these cost claims sent during the year is variable depending on the type of action being funded and the contractual conditions, and they are not necessarily received at year-end.

Cost statements received should be registered immediately in the accounting system as a current payable with “Eligibility to be checked” and a “Step 1 invoice”. At this stage, no expense is yet recognised. An expense is only recognised in the general accounts once the “generating event” has occurred – namely when the cost claim is validated. The time limit for paying the received invoice starts as from the date of registration of the received admissible payment request: once satisfied that the claim is eligible, an accounting entry is made that transfers the eligible amounts to the economic outturn account as an expense (“Step 2 invoice”). The open pre-financing and creditor balances are then reduced by the validated amount. There is no impact on the budgetary accounts since the initial payment has already been recorded.

3.4.4 Payment of further amounts

If an amount in excess of the initial payment is claimed and verified or if a second or final payment is required to be paid in accordance with the contract, then a new payment request is launched following the same rules as before. It is the authorising officer by delegation who gives final approval before the payment can be made. Eligibility criteria are defined in the basic act, in the calls for proposal, in other information documents for grant beneficiaries and/or in the contractual clauses of the grant agreements. After analysis, the eligible expenses are taken into charges and the beneficiary is informed about any non eligible amounts. “Eligibility to be checked” amounts thus represent received cost claims for which the eligibility has not yet been checked and therefore where the event giving rise to the expense has not yet occurred.

3.4.5 Accounting treatment at year-end (cut-off)

With regard to open pre-financing amounts at year-end, these are valued at the original amount(s) paid less: amounts returned, eligible amounts cleared, estimated eligible amounts not yet cleared at year-end, and value reductions.

Cost claims not yet received at year-end are taken into account in the year-end accounting cut-off procedures. In particular an assessment has to be made concerning eligible expenses incurred by beneficiaries of Community funds but not yet reported to the EC. Different methods are used depending on the type of activities and information available so as to arrive at the best estimate of these amounts. Following these cut-off entries, estimated eligible amounts are recorded as accrued charges, while the estimated non-eligible parts remain open on the “eligibility to be checked” accounts. These amounts are shown under current liabilities so as not to overestimate assets and liabilities.

3.5 RECOVERING UNDUE PAYMENTS

The eligibility of expenditure charged to the budget is verified by the relevant EC services, or in the case of shared management, by the Member States, on the basis of the supporting documents stipulated in the applicable rules or in the conditions of each grant. With the aim of optimising the relationship between the costs and the benefits of control systems, checks on the supporting documents for final claims tend to be more intense than those on interim claims, and thus may detect errors in interim payments which are corrected by adjustment of the final payment. Furthermore, the EC and/or the Member State has the right to verify the probity of the supporting documents by making checks on the claimant's premises, during the implementa-

tion of the action financed and/or afterwards (ex-post). Errors found during the implementation period may be corrected by adjustment of subsequent claims. Errors found ex-post will be the subject of a recovery order. See also note 6 for further information on this area.

4 YEAR-END REPORTING

4.1 ANNUAL ACCOUNTS

It is the Accounting Officer's responsibility to prepare the annual accounts and ensure that they present a true and fair view of the financial position of the EU. The annual accounts comprise the financial statements and the reports on implementation of the budget. They are adopted by the Commission and presented to the Court of Auditors for audit and finally to the Council and Parliament for discharge.

4.2 ANNUAL ACTIVITY REPORTS

Each Authorising Officer is required to prepare an Annual Activity Report (AAR) on the activities under his responsibility. In this AAR, he reports on policy results and on the reasonable assurance he may have that the resources assigned to the activities described in his report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

5 AUDIT AND DISCHARGE

5.1 AUDIT

The EU's annual accounts and resource management are overseen by its external auditor, the European Court of Auditors, which draws up an annual report for the Council and the European Parliament. The Court's main task is to conduct an external, independent audit of the European Communities' annual accounts. As part of its activities, the Court of Auditors produces:

- (1) an annual report on the activities financed from the general budget, detailing its observations on the annual accounts and underlying transactions;
- (2) an opinion, based on its audits and given in the annual report in the form of a statement of assurance, on (i) the reliability of the accounts and (ii) the legality and regularity of the underlying transactions involving both revenue collected from taxable persons and payments to final beneficiaries;
- (3) special reports giving the findings of audits covering specific areas of management.

The Court of Auditors is entitled to access all documents required during the course of its audit. The Court audits all areas of EC activities, right down to examining the legality and regularity of individual transactions and payments. It also audits the annual accounts themselves, reviewing individual balance sheet and economic outturn accounts where necessary as well as the overall presentation of the financial statements. Thus the Court can offer its opinion not only on the figures presented, but also on the system and controls in place.

5.2 DISCHARGE

The final control is the discharge of the budget for a given financial year. The European Parliament is the discharge authority within the EC. This means that following the audit and finalisation of the annual accounts it falls to the Council to recommend and then to the Parliament to decide whether to grant discharge to the Commission and other EC bodies for executing the Communities' budget for the preceding financial year. This decision is based on a review of the accounts and the annual report of the Court of Auditors (which includes an official statement of assurance) and replies of the Commission, and also following questions and further information requests to the Commission.

The discharge represents the political aspect of the external control of budget implementation and is the decision by which the European Parliament, acting on a Council recommendation, "releases" the Commission from its responsibility for management of a given budget by marking the end of that budget's existence. This discharge procedure may produce one of three outcomes: the granting, postponement or refusal of the discharge. When granting discharge the Parliament may highlight observations they consider important, often recommending actions that the Commission should take concerning these matters. The Commission sets out the measures taken in a follow-up report and an action plan which it sends to both the Parliament and the Council.

ANNUAL ACCOUNTS OF THE EUROPEAN COMMUNITIES

FINANCIAL YEAR 2008

PART I

Consolidated financial statements
of the European Communities
and explanatory notes

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BALANCE SHEET

EUR millions

	Note	31.12.2008	31.12.2007
NON-CURRENT ASSETS:			
Intangible assets	2.1	56	44
Property, plant and equipment	2.2	4 881	4 523
Long-term investments	2.3	2 078	1 973
Loans	2.4	3 565	1 806
Long-term pre-financing	2.5	29 023	14 015
Long-term receivables	2.6	45	127
		39 648	22 488
CURRENT ASSETS:			
Inventories	2.7	85	88
Short-term investments	2.8	1 553	1 420
Short-term pre-financing	2.9	10 262	20 583
Short-term receivables	2.10	11 920	12 051
Cash and cash equivalents	2.11	23 724	18 756
		47 544	52 898
TOTAL ASSETS		87 192	75 386
NON-CURRENT LIABILITIES:			
Employee benefits	2.12	(37 556)	(33 480)
Long-term provisions	2.13	(1 341)	(1 079)
Long-term financial liabilities	2.14	(3 349)	(1 574)
Other long-term liabilities	2.15	(2 226)	(1 989)
		(44 472)	(38 122)
CURRENT LIABILITIES:			
Short-term provisions	2.16	(348)	(369)
Short-term financial liabilities	2.17	(119)	(135)
Accounts payable	2.18	(89 677)	(95 380)
		(90 144)	(95 884)
TOTAL LIABILITIES		(134 616)	(134 006)
NET ASSETS		(47 424)	(58 620)
Reserves	2.19	3 115	2 806
Amounts to be called from Member States:	2.20		
Employee benefits (*)		(37 556)	(33 480)
Other amounts (**)		(12 983)	(27 946)
NET ASSETS		(47 424)	(58 620)

(*) Under Article 83 of the Staff Regulations (Council Regulation 259/68 of 29 February 1968 as amended), the Member States shall jointly guarantee the liability for pensions.

(**) The European Parliament has adopted a budget on 18 December 2008 which provides for the payment of the Communities' short-term liabilities from own resources to be collected by, or called up from, the Member States in 2009.

ECONOMIC OUTTURN ACCOUNT

EUR millions

	Note	2008	2007
OPERATING REVENUE			
Own resource and contributions revenue	3.1	112 713	112 084
Other operating revenue	3.2	9 731	9 080
		122 444	121 164
OPERATING EXPENSES			
Administrative expenses	3.3	(7 720)	(7 120)
Operating expenses	3.4	(97 214)	(104 682)
		(104 934)	(111 802)
SURPLUS FROM OPERATING ACTIVITIES		17 510	9 362
Financial revenue	3.5	698	674
Financial expenses	3.6	(467)	(354)
Movement in employee benefits liability	2.12	(5 009)	(2 207)
Share of net deficit of associates & joint ventures	3.7	(46)	(13)
ECONOMIC RESULT FOR THE YEAR		12 686	7 462

CASHFLOW TABLE

EUR millions

	Note	2008	2007
Economic outturn for the year		12 686	7 462
OPERATING ACTIVITIES	4.2		
Amortisation		19	11
Depreciation		302	329
(Reversal of) impairment losses on investments		3	(3)
(Increase)/decrease in loans		(1 759)	217
(Increase)/decrease in long-term pre-financing		(15 008)	8 410
(Increase)/decrease in long-term receivables		82	201
(Increase)/decrease in inventories		3	27
(Increase)/decrease in short-term pre-financing		10 321	(12 528)
(Increase)/decrease in short-term receivables		131	(2 255)
Increase/(decrease) in long-term provisions		262	90
Increase/(decrease) in long-term financial liabilities		1 775	(288)
Increase/(decrease) in other long-term liabilities		237	(31)
Increase/(decrease) in short-term provisions		(21)	(10)
Increase/(decrease) in short-term financial liabilities		(16)	115
Increase/(decrease) in accounts payable		(5 703)	1 300
Prior year budgetary surplus taken as non cash revenue		(1 529)	(1 848)
Other non-cash movements		37	(15)
INCREASE/(DECREASE) IN EMPLOYEE BENEFITS LIABILITY		4 076	1 280
INVESTING ACTIVITIES	4.3		
(Increase)/decrease in intangible assets and property, plant and equipment		(689)	(284)
(Increase)/decrease in long-term investments		(152)	(5)
(Increase)/decrease in short-term investments		(133)	6
NET CASHFLOW		4 924	2 181
NET INCREASE IN CASH AND CASH EQUIVALENTS (*)		4 924	2 181
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (*)	2.11	19 005	16 824
CASH AND CASH EQUIVALENTS AT YEAR-END (*)	2.11	23 929	19 005

(*) Includes the cash of the Guarantee Fund (see note 2.11)

STATEMENT OF CHANGES IN NET ASSETS

	EUR millions				
	Reserves (A)		Amounts to be called from Member States (B)		Net Assets = (A) + (B)
	Fair value reserve	Other reserves	Accumulated Surplus/(Deficit)	Economic outturn of the year	
BALANCE AS AT 31 DECEMBER 2006	4	2 851	(67 270)	197	(64 218)
Movement in Guarantee Fund reserve			135		0
Fair value movements	3	(135)	(26)		(23)
Other		60	(53)		7
Allocation of the economic outturn 2006		23	174	(197)	0
Budget result 2006 credited to Member States			(1 848)		(1 848)
Economic outturn for the year				7 462	7 462
BALANCE AS AT 31 DECEMBER 2007	7	2 799	(68 888)	7 462	(58 620)
Movement in Guarantee Fund reserve		158	(158)		0
Fair value movements	34				34
Other		113	(108)		5
Allocation of the economic outturn 2007		4	7 458	(7 462)	0
Budget result 2007 credited to Member States			(1 529)		(1 529)
Economic outturn for the year				12 686	12 686
BALANCE AS AT 31 DECEMBER 2008	41	3 074	(63 225)	12 686	(47 424)

PART I

Notes to the financial statements

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outturn account**
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- 7. Financial risk management**
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- 9. Events after the balance
sheet date**
- 10. Consolidated entities**
- 11. Non-consolidated entities**

I. SIGNIFICANT ACCOUNTING POLICIES

I.1 LEGAL PROVISIONS AND THE FINANCIAL REGULATION

The accounts are kept in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248 of 16 September 2002, p. 1, last amended by Council Regulation (EC) No 1525/2007 of 17 December 2007, OJ L343 of 27 December 2007) on the Financial Regulation applicable to the general budget of the European Communities and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of this Financial Regulation, last modified on 23 April 2007.

Article 133 of the Financial Regulation states that the Accounting Officer of the Commission adopts the accounting rules and methods to be applied by all the institutions and bodies. These accrual-based accounting policies are derived from International Public Sector Accounting Standards (IPSAS) or by default, International Financial Reporting Standards (IFRS) as respectively issued by the International Public Sector Accounting Standards Board (IPSASB) and the International Accounting Standards Board (IASB). These rules have been adopted by the Accounting Officer of the Commission after receiving the opinion of an Advisory Expert Group for Accounting Standards that provided professional guidance. The accounting rules are regularly reviewed and updated when necessary.

The accounting rules adopted by the Accounting Officer of the Commission are applied in all the European Institutions and bodies falling within the scope of consolidation in order to establish a uniform set of rules for accounting, valuation and presentation of the accounts with a view to harmonising the process for drawing up the financial statements and consolidation.

The Commission's Accounting Officer must submit the consolidated provisional accounts to the Court of Auditors for audit by 31 March of the following year. The Commission must adopt the final consolidated accounts before 31 July and they are then published in the Official Journal by 15 November together with the Court of Auditors' statement of assurance.

I.2 ACCOUNTING PRINCIPLES

The objective of the financial statements is to provide information about the financial position, performance and cashflows of an entity that is useful to a wide range of users. For a public sector entity such as the European Communities, the objectives are more specifically to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.

If they are to present a true and fair view, financial statements must not only supply relevant information to describe the nature and range of an Institution's and Agencies' activities, explain how it is financed and supply definitive information on its operations, but do so in a clear and comprehensible manner which allows comparisons between financial years. It is with these goals in mind that the present document has been drawn up.

The accounting system of the European Institutions and Agencies comprises general accounts and budget accounts. These accounts are kept in euro on the basis of the calendar year. The budget accounts give a detailed picture of the implementation of the budget. They are based on the modified cash accounting principle. The general accounts allow for the preparation of the financial statements as they show all charges and income for the financial year based on accrual accounting rules and are designed to establish the financial position in the form of a balance sheet at 31 December.

Article 124 of the Financial Regulation sets out the accounting principles to be applied in drawing up the financial statements:

- going concern basis;
- prudence;
- consistent accounting methods;
- comparability of information;
- materiality;
- no netting;
- reality over appearance;
- accrual-based accounting.

1.3 CONSOLIDATION

The scope of consolidation of the European Communities comprises 39 controlled entities, one associate and three joint ventures. The complete list of consolidated entities can be found in note 10. In comparison with 2007, the scope of consolidation has been extended by three agencies. The impact of these additions on the consolidated financial statements is not material. End of 2008 one Community agency has been liquidated. The operations of this agency have been taken over by the European Commission. Income and expenses of this agency are part of the consolidated economic outturn account.

Controlled entities

Controlled entities are all entities over which the European Communities have, directly or indirectly, the power to govern the financial and operating policies so as to be able to benefit from these entities' activities. This power must be presently exercisable. Controlled entities are fully consolidated. The consolidation begins at the first date on which control exists, and ends when such control no longer exists. The most common indicator of control, majority of voting rights, is in most of the cases not applicable for the European Communities.

The European Institutions falling within the scope of consolidation have been created through their founding treaties. They represent the basis of the organisational structure of the European Communities and contribute incontestably to the European Communities' objectives. These Institutions can therefore be considered as being under the exclusive control of the European Communities.

Under the same approach, the Communities Agencies and Executive Agencies created through a secondary act of legislation are considered as under the exclusive control of the European Communities and therefore are also included in the consolidation scope. It should be noted that

the Office for Harmonisation in the Internal Market (Alicante) and the Community Plant Variety Office (Angers) do not receive any subsidies from the General Budget of the Communities. Also included in the scope of consolidation are two agencies of the 3rd pillar of the European Union that have received a subsidy from the General Budget of the European Communities (see also note 10). Furthermore the European Coal and Steel Communities in Liquidation (ECSC) is also considered as a controlled entity. At the winding up of Fusion for Energy Agency, foreseen for 2041, any surplus or deficit shall be distributed amongst the remaining members at that time.

All inter-company transactions and balances between European Communities' controlled entities are eliminated. Unrealised gains and losses on inter-entity transactions are not material and have therefore not been eliminated.

Associates

Associates are all entities over which the European Communities have, directly or indirectly, significant influence but not control over financial and operating policy decisions. It is presumed that significant influence is given if the European Commission holds directly or indirectly 20% or more of the voting rights.

Investments in associates are accounted for using the equity method, initially recognised at cost. The European Communities' share of their associates' post-acquisition profits or losses is recognised in the economic outturn account, and their share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment. Unrealised gains and losses on transactions between the European Communities and their associate are not material and have therefore not been eliminated.

The accounting policies of associates may differ from those adopted by the European Communities for like transactions and events in similar circumstances. For practicable reasons, no adjustments were made to the associates' financial statements used in applying the equity method.

In cases where the European Communities hold 20% or more of a venture capital fund, the Communities do not seek to exert significant influence. Such funds are therefore treated as financial instruments categorised as available-for-sale and the equity method is not applied.

Joint ventures

A joint venture is a contractual arrangement whereby the European Communities and one or more parties (the "venturers") undertake an economic activity which is subject to joint control. Joint control is the contractually agreed sharing of control, directly or indirectly, over an economic activity.

Investments in joint ventures are accounted for using the equity method initially recognised at cost. The European Communities' interest of the profits or losses of their jointly controlled entities is recognised in the economic outturn account, and their interest of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the interest.

Unrealised gains and losses on transactions between the European Communities and their jointly controlled entity are not material and have therefore not been eliminated.

The accounting policies of joint ventures may differ from those adopted by the European Communities for like transactions and events in similar circumstances.

Non-consolidated entities

Not controlled by the European Communities and thus not consolidated in its accounts are the funds managed by the Communities on behalf of both the Sickness Insurance Scheme for staff of the European Communities, and the European Development Fund. At 31 December 2008 the total assets of both were EUR 288 million and EUR 1 219 million respectively – see note II.

I.4 BASIS OF PREPARATION

I.4.1 Currency and basis for conversion

Functional and reporting currency

The financial statements are presented in millions of euros, the euro being the European Communities' functional and reporting currency.

Transactions and balances

Foreign currency transactions are translated into euros using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the economic outturn account.

Different conversion methods apply to the following headings:

- property, plant and equipment and intangible assets, which retain their value in euros at the rate that applied at the date when they were purchased; and
- pre-financing amounts paid under the European Agricultural Guarantee Fund, which are converted at the exchange rates applying on the 10th day of the month following the month in which they are granted.

Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates applying on 31 December:

EURO EXCHANGE RATES

Currency	31.12.2008	31.12.2007	Currency	31.12.2008	31.12.2007
BGN	1.9558	1.9558	LTL	3.4528	3.4528
CZK	26.8750	26.6280	PLN	4.1535	3.5935
DKK	7.4506	7.4583	RON	4.0225	3.6077
EEK	15.6466	15.6466	SKK	30.1260	33.5830
GBP	0.9525	0.7333	SEK	10.8700	9.4415
HUF	266.7000	253.7300	JPY	126.1400	164.9300
LVL	0.7083	0.6964	USD	1.3917	1.4721

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale that relate to a translation difference are recognised in the economic outturn account. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in the economic outturn account. Translation differences on non-monetary financial assets classified as available-for-sale are included in the fair value reserve.

1.4.2 Use of estimates

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management based on the most reliable information available. Significant estimates include, but are not limited to, amounts for employee benefit liabilities, provisions, financial risk on inventories and accounts receivables, accrued income and charges, contingent assets and liabilities, and degree of impairment of intangible assets and property, plant and equipment. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

1.5 BALANCE SHEET

1.5.1 Intangible assets

Acquired computer software licences are stated at cost less accumulated amortisation and impairment losses. The assets are amortised on a straight-line basis over their estimated useful lives, being 4 years. Internally produced intangible assets are currently expensed in the economic outturn account. Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred, as are scientific research and development costs.

1.5.2 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the European Communities and its cost can be measured reliably. Repairs and maintenance are charged to the economic outturn account during the financial period in which they are incurred. As the European Communities do not borrow money to fund the acquisition of property, plant and equipment, there are no borrowing costs related to such purchases.

Land and works of art are not depreciated as they are deemed to have an infinite life. Assets under construction are not depreciated as these assets are not yet available for use. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

DEPRECIATION RATES

Type of asset	Straight line depreciation rate
Buildings	4%
Plant, machinery and equipment	10% to 25%
Furniture	10% to 25%
Fixtures and fittings	10% to 33%
Vehicles	25%
Computer hardware	25%
Other tangible assets	10% to 33%

Gains and losses on disposals are determined by comparing proceeds less selling expenses with the carrying amount of the disposed asset. These are included in the economic outturn account.

Leases

Leases of tangible assets, where the European Communities have substantially all the risks and rewards of ownership, are classified as financial leases. Financial leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The rental obligations, net of finance charges, are included in other liabilities (long and short-term.) The interest element of the finance cost is charged to the economic outturn account over the lease period so as to produce a constant periodic interest rate on the remaining balance of the liability for each period. The assets acquired under financial leases are depreciated over the shorter of the assets' useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards inherent to ownership are classified as operating leases. Payments made under operating leases are charged to the economic outturn account on a straight-line basis over the period of the lease.

1.5.3 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Intangible assets and property, plant and equipment residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1.5.4 Investments

Investments in Associates and interests in Joint Ventures

Investments in associates and interests in joint ventures are accounted for using the equity method. The investments are tested for impairment if there are indications of impairment and written down to the lower recoverable amount if necessary. The recoverable amount is determined as described under **1.5.3**.

Investments in Venture Capital Funds

Classification and measurement

Investments in Venture Capital Funds are classified as available-for-sale assets and accordingly, are carried at fair value with gains and losses arising from changes in the fair value (including translation differences) recognised in the fair value reserve.

Fair value considerations

Since they do not have a quoted market price in an active market and in the absence of any other reliable valuation technique, investments in Venture Capital Funds are valued on a line-by-line basis at the lower of cost or attributable net asset value ("NAV") as reported by the fund manager up to the balance sheet date, thus excluding any attributable unrealised gain that may be prevailing in the underlying investment portfolio. Investments in Venture Capital Funds in existence for less than two years at balance sheet date are valued based on the same principles, except in the case of unrealised losses due only to administrative expenses where, in view of the early stage of the underlying investment portfolio, these unrealised losses are not taken into account.

Under this method, the fair value of investments in Venture Capital Funds is achieved by applying the aggregated Net Asset Value ("NAV") concept, which implicitly assumes that if the NAVs of the funds can be considered as compliant with IAS 39, then the aggregation of the NAVs of all funds will itself be compliant with IAS 39.

In accordance with this method, the funds are classified into three categories:

- Category I – funds that have adopted the fair value requirements of IAS 39.
- Category II – funds that have adopted other valuation guidelines (i.e. AFIC, BVCA & EVCA valuation guidelines) or standards that can be considered as in line with IAS 39.
- Category III – funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines in line with IAS 39.

For Categories I & II, unrealised gains resulting from the fair value measurement are recognised through reserves and unrealised losses are assessed for impairment so as to determine whether they are recognised as impairment losses in the economic outturn account or as changes in the fair value reserve. The fair valued attributable NAV is determined through applying either the European Communities' percentage ownership in the fund to the NAV reflected in the most recent report or, to the extent available, the precise share value at the same date, submitted by the respective Fund Manager.

Investments belonging to category III are valued at cost less impairment losses (although no investments of this type are currently held).

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another.

Classification

The European Communities classify their financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification of the financial instruments is determined at initial recognition and re-evaluated at each balance sheet date.

(i) Financial assets at fair value through profit or loss

A financial instrument is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the European Communities. Derivatives are also categorised in this category. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the EC provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in non-current assets, except for maturities within 12 months of the balance sheet date.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the European Communities has the positive intention and ability to hold to maturity. During this financial year, the European Communities did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as either current or non-current assets, depending on the time period in which the Communities intend to dispose of them. Investments in unconsolidated entities and other equity investments that are not accounted for using the equity method are also classified as available-for sale-financial assets.

Initial recognition and measurement

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the European Communities commit to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial instruments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the economic outturn account.

The fair value of a financial asset on initial recognition is normally the transaction price (i.e. the fair value of the consideration received). However, when a long-term loan that carries no interest or an interest below market conditions is granted, its fair value can be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

Financial instruments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the European Communities have transferred substantially all risks and rewards of ownership.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the 'financial instruments at fair value through profit or loss' category are included in the economic outturn account in the period in which they arise.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. In the case of loans granted on borrowed funds, the effective interest method does not have to be applied separately to loans and borrowings. The reason for this is that these loans have the characteristics of 'back-to-back operations' and the differences between the loan and the borrowing conditions and amounts are not material. Thus, there is no relevant

information missing that would affect the reader's understanding of the underlying transactions. The transaction costs incurred by the Communities and then recharged to the beneficiary of the loan are directly recognised in the economic outturn account.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale assets are recognised in the fair value reserve. When assets classified as available-for-sale are sold or impaired, the cumulative fair value adjustments previously recognised in the fair value reserve are recognised in the economic outturn account. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the economic outturn account. Dividends on available-for-sale equity instruments are recognised when the Communities right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the European Communities establish a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

In cases where the fair value of investments in equity instruments that do not have quoted market price in an active market cannot be reliably measured, these investments are valued at cost less impairment losses.

Impairment of financial assets

The European Communities assess at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the economic outturn account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the economic outturn account.

(ii) Assets carried at fair value

In the case of equity investments classified as available-for-sale, a significant or permanent (prolonged) decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the economic outturn account – is removed from reserves and recognised in the economic outturn account. Impairment losses recognised in the economic outturn account on equity instruments are not reversed through the economic outturn account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the economic outturn account.

1.5.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

When inventories are held for distribution at no charge or for a nominal charge, they are measured at the lower of cost and current replacement cost. Current replacement cost is the cost the European Communities would incur to acquire the asset on the reporting date.

1.5.6 Pre-financing amounts

Pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. It may be split into a number of payments over a period defined in the particular pre-financing agreement. The float or advance is repaid or used for the purpose for which it was provided during the period defined in the agreement. If the beneficiary does not incur eligible expenditures, he has the obligation to return the pre-financing advance to the European Communities. The amount of the pre-financing is reduced (wholly or partially) by the acceptance of eligible costs and amounts returned.

At year-end, outstanding pre-financing amounts are valued at the original amount(s) paid less: amounts returned, eligible amounts cleared, estimated eligible amounts not yet cleared at year-end, and value reductions.

Interest on pre-financing is recognised as it is earned in accordance with the provisions of the relevant agreement. An estimate of the accrued interest revenue, based on the most reliable information, is made at the year-end and included in the balance sheet.

1.5.7 Receivables

Receivables are carried at original amount less write-down for impairment. A write-down for impairment of receivables is established when there is objective evidence that the European Communities will not be able to collect all amounts due according to the original terms of receivables. The amount of the write-down is the difference between the asset's carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the market rate of interest for similar borrowers. The amount of the write-down is recognised in the economic outturn account. Also recognised is a general write-down in value of 20% per year for outstanding recovery orders not already subject to a specific write-down. See note **1.5.13** below concerning the treatment of accrued income at year-end.

1.5.8 Cash and cash equivalents

Cash and cash equivalents are financial instruments and defined as short-term assets. They include cash at hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within financial liabilities under current liabilities on the balance sheet.

1.5.9 Employee benefits

Pension obligations

The European Communities operate defined benefit pension plans. A defined benefit plan is a pension plan that generally defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Whilst staff contribute from their salaries one third of the expected cost of these benefits, the liability is not funded.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the economic outturn account. Past-service costs are recognised immediately in economic outturn account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Post-employment sickness benefits

The European Communities provide health benefits to its employees through the reimbursement of medical expenses. A separate fund ("RCAM") has been created for the day-to-day

administration. Both current employees, pensioners, widowers and their beneficiaries benefit from the system.

The benefits granted to the “inactives” (pensioners, orphans, etc.) are classified as “Post-Employment Employee Benefits”. Given the nature of these benefits, an actuarial calculation is required. The liability in the balance sheet is determined on a similar basis as that for the pension obligations (see above).

1.5.10 Provisions

Provisions are recognised when the European Communities have a present legal or constructive obligation towards third parties as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses. The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. Where the provision involves a large number of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities (“expected value” method).

Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate used is a rate that reflects current market assessments of the time value of money and the risks specific to the liability but not the risks for which future cash flows estimates have been adjusted.

1.5.11 Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities carried at amortised cost (Borrowings). Borrowings are composed of borrowings from credit institutions and debts evidenced by certificates. They are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred, then subsequently carried at amortised cost using the effective interest method; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the economic outturn account over the period of the borrowings using the effective interest method. They are classified as non-current liabilities, except for maturities less than 12 months after the balance sheet date. In the case of loans granted on borrowed funds, the effective interest method may not be applied separately to loans and borrowings, based on materiality considerations. The transaction costs incurred by the European Communities and then recharged to the beneficiary of the loan are directly recognised in the economic outturn account.

Financial liabilities categorised at fair value through profit or loss include derivatives when their fair value is negative. They follow the same accounting treatment as financial assets at fair value through profit or loss, see note 1.5.4.

1.5.12 Payables

A significant amount of the payables of the Communities are not related to the purchase of goods or services – instead they are unpaid cost claims from beneficiaries of grants or other

Communities funding. They are recorded as payables for the requested amount when the cost claim is received and, after verification, accepted as eligible by the relevant financial agents. At this stage they are valued at the accepted and eligible amount.

Payables arising from the purchase of goods and services are recognised at invoice reception for the original amount and corresponding expenses are entered in the accounts when the supplies or services are delivered and accepted by the European Communities.

1.5.13 Accrued and deferred income and charges

A critical element in accrual accounting is the exercise of ensuring that transactions are recorded in the accounting year to which they relate. This exercise is referred to as the cut-off exercise. In particular an assessment has to be made concerning eligible expenses incurred by beneficiaries of Communities' funds but not yet reported to the Communities (accrued charges). Different methods are used depending on the type of activities and information available so as to arrive at the best estimate of these amounts. Conversely, some payments made in current year relate to subsequent periods (deferred charges) and these have to be identified and included in the subsequent period(s).

According to the European Communities accounting rules, transactions and events are recognised in the financial statements in the period to which they relate. At the end of the accounting period, accrued expenses are recognised based on an estimated amount of the transfer obligation of the period. The calculation of the accrued expenses is done in accordance with detailed operational and practical guidelines issued by the Commission which aim at ensuring that the financial statements reflect a true and fair view.

Revenue is also accounted for in the period to which it relates. At year-end, if an invoice is not yet issued but the service has been rendered, the supplies have been delivered by the Communities or a contractual agreement exists (i.e. by reference to a treaty), an accrued income will be recognised in the financial statements.

In addition, at year-end, if an invoice is issued but the services have not yet been rendered or the goods supplied have not yet been delivered, the revenue will be deferred and recognised in the subsequent accounting period.

1.6 ECONOMIC OUTTURN ACCOUNT

1.6.1 Revenue

Non-exchange revenue

This makes up the vast majority of the Communities' revenue and includes mainly direct and indirect taxes and own resource amounts. In addition to taxes the European Communities may also receive payments from other parties, such as duties, fines and donations.

GNI based resources and VAT resources

Receivables and related revenues are recognised for the period for which the European Communities send out a call for funds to the Member States claiming their contribution. They are measured at their “called amount”. As VAT and GNI resources are based on estimates of the data for the budgetary year concerned, they may be revised as changes occur until the final data are issued by the Member States. The effect of a change in estimate is included when determining the net surplus or deficit for the period in which the change occurred.

Traditional own resources

Receivables and related revenues are recognised when the relevant monthly A statements (including duties collected and amounts due that are guaranteed and not contested) are received from the Member States. At the reporting date, revenue collected by the Member States for the period but not yet paid to the European Communities is estimated and recognised as accrued revenue. The quarterly B statements (including duties neither collected nor guaranteed, as well as guaranteed amounts that have been contested by the debtor) received from the Member States are recognised as revenue less the collection costs to which they are entitled (25%). In addition, a value reduction is recognised for the amount of the estimated recovery gap in the economic outturn account.

Fines

Receivables and related revenues are recognised when the Communities’ decision imposing a fine has been taken and it is officially notified to the addressee. If there are doubts about the undertaking’s solvency, a value reduction on the entitlement is recognised. After the decision to impose a fine, the debtors have two months from the date of notification:

- either to accept the decision, in which case they must pay the fine within the time limit laid down and the amount is definitively collected by the Communities;
- or not to accept the decision, in which case they lodge an appeal under Communities’ law.

However, the principal of the fine must be paid within the time limit of three months laid down as the appeal does not have suspensory effect (Article 242 of the EC Treaty). The debtor must pay the fine provisionally but, under certain circumstances and subject to the agreement of the Commission’s Accounting Officer, it may present a bank guarantee for the amount instead.

If the undertaking appeals against the decision, and has already provisionally paid the fine, the amount is disclosed as a contingent liability. However, since an appeal against a Communities’ decision by the addressee does not have suspensory effect, the cash received is used to clear the receivable. If a guarantee is received instead of payment, the fine remains as a receivable.

If it appears probable that the Court of First Instance may not rule in favour of the Communities, a provision is recognised to cover this risk. If a guarantee had been given instead, then the receivable outstanding is written-down as required. The accumulated interest received by the European Communities on the bank accounts where received payments are deposited is recognised as revenue, and any contingent liability is increased accordingly.

Recovery of expenses

For operations giving rise to reimbursement of expenditures previously paid by the European budget to a final beneficiary, third country or a Member State, recovery orders and deductions from subsequent payments are established and accounted for as follows:

- Recovery of expenses: For these types of recoveries the accounting rules require that if the recovery order is issued in the same year of the original payment it should result in a receivable from the recipient with a corresponding reduction in the expenses of that year. If, however, the recovery order is issued in another year, it results in a receivable with the corresponding entry being income in the economic outturn account (under the heading “recovery of expenses”) for that year; or
- Recovery of pre-financing amounts: in this case the amount is included under the pre-financing heading.

Exchange revenue

Revenue from the sale of goods is recognised when the significant risk and rewards of ownership of the goods are transferred to the purchaser. Revenue associated with a transaction involving the provision of services is recognised by reference to the stage of completion of the transaction at the reporting date.

Interest income and expense

Interest income and expense are recognised in the economic outturn account using the effective interest method. This is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the European Communities estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In the case of loans granted on borrowed funds, the effective interest method may not be applied separately to loans and borrowings, based on materiality considerations. The transaction costs incurred by the European Communities and then recharged to the beneficiary of the loan are directly recognised in the economic outturn account.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividend income

Dividend income is recognised when the right to receive payment is established.

1.6.2 Expenditure

Exchange expenses arising from the purchase of goods and services are recognised when the supplies are delivered and accepted by the European Communities. They are valued at original invoice cost.

Non-exchange expenses are specific to the European Communities and account for the majority of its expenditure. They relate to transfers to beneficiaries and can be of three types: entitlements, transfers under agreement and discretionary grants, contributions and donations.

Transfers are recognised as expenses in the period during which the events giving rise to the transfer occurred, as long as the nature of the transfer is allowed by regulation (Financial Regulation, Staff Regulations, or other regulation) or a contract has been signed authorising the transfer; any eligibility criteria have been met by the beneficiary; and a reasonable estimate of the amount can be made.

When any request for payment or cost claim is received and meets the recognition criteria, it is recognised as an expense for the eligible amount. At year-end, incurred eligible expenses already due to the beneficiaries but not yet reported are estimated and recorded as accrued expenses.

1.7 CONTINGENT ASSETS AND LIABILITIES*Contingent assets*

A contingent asset is a possible asset that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the European Communities. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable.

Contingent assets are assessed at each balance sheet date to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognised in the financial statements of the period in which the change occurs.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the European Communities; or a present obligation that arises from past events but is not recognised because: it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the

obligation or, in the rare circumstances where the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. While the EC is exposed to some risks due to the nature of its day-to-day activities (e.g. implementing and enforcing EU laws and standards), and like many public entities some of these risks are self-insured, no contingent liability is disclosed until a specific event has occurred, since until then the possibility of an outflow of resources is remote.

Contingent liabilities are assessed at each balance sheet date to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of resources embodying economic benefits or service potential will be required for an item dealt with as contingent liability, a provision is recognised in the financial statements of the period in which the change of probability occurs.

Commitments for future funding

A commitment for future funding represents a legal or constructive commitment, usually contractual, that the Communities have entered into and which may require a future outflow of resources.

Guarantees

Guarantees are possible assets or obligations that arise from past events and whose existence will be confirmed by the occurrence or non-occurrence of the object of the guarantee. Guarantees can thus qualify as contingent assets or liabilities. A guarantee is settled when the object of the guarantee no longer exists. It is crystallised when the conditions are fulfilled for calling a payment from the guarantor.

2. NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

2.1 INTANGIBLE ASSETS

	<i>EUR millions</i>
	Amount
Gross carrying amount at 31 December 2007	105
Additions	30
Disposals	(3)
Transfers between asset categories	0
Other changes	2
Gross carrying amount at 31 December 2008	134
Accumulated amortisation at 31 December 2007	61
Amortisation charge for the year	19
Disposals	(2)
Transfers between asset categories	0
Other changes	0
Accumulated amortisation at 31 December 2008	78
NET CARRYING AMOUNT AT 31 DECEMBER 2008	56
<i>Net carrying amount at 31 December 2007</i>	<i>44</i>

The amounts relate primarily to computer software.

2.2 PROPERTY, PLANT AND EQUIPMENT

In some countries the value of the land cannot be distinguished from the value of the building since both were purchased as a whole. The value of the land, which is not subject to depreciation, will not be evaluated separately unless it becomes necessary, i.e. for subsequent expenditure such as construction of a new property or a partial sale.

PROPERTY, PLANT & EQUIPMENT

	Land and buildings	Plant and equipment	Furniture and vehicles	Computer hardware	Other tangible assets	Finance leases	Assets under construction	Total
	EUR millions							
Gross carrying amount at 31 December 2007	3 860	350	194	446	115	1 943	332	7 240
Additions	38	24	16	59	23	368	115	643
Disposals	(16)	(30)	(14)	(54)	(9)	0	0	(123)
Transfers between asset categories	3	3	1	0	13	310	(330)	0
Other changes	17	21	8	15	9	0	5	75
Gross carrying amount at 31 December 2008	3 902	368	205	466	151	2 621	122	7 835
Accumulated depreciation at 31 December 2007	1 506	281	142	333	81	374		2 717
Depreciation charge for the year	122	29	16	62	13	77		319
Depreciation written back	(15)	0	(1)	(1)	0	0		(17)
Disposals	(5)	(30)	(10)	(50)	(9)	0		(104)
Transfers between asset categories	89	(1)	0	0	0	(88)		0
Other changes	(81)	21	2	5	7	85		39
Accumulated depreciation at 31 December 2008	1 616	300	149	349	92	448		2 954
NET CARRYING AMOUNT AT 31 DECEMBER 2008	2 286	68	56	117	59	2 173	122	4 881
NET CARRYING AMOUNT AT 31 DECEMBER 2007	2 354	69	52	113	34	1 569	332	4 523

Charges still to be paid in respect of finance leases and similar entitlements are shown in long-term and short-term liabilities in the balance sheet (see also notes **2.15** and **2.18.1**). They break down as follows:

FINANCE LEASES

EUR millions

Description	Cumulative charges (A)	Future amounts to be paid			Total Value	Subsequent expenditure on assets	Asset value	Depreciation	Net carrying amount = A+B+C+E
		< 1 year	> 1 year	> 5 years					
		Liability (B)			A+B	(C)	A+B+C	(E)	
Land and buildings	732	47	239	1 520	1 806	61	2 599	(442)	2 157
Other tangible assets	6	5	11	0	16	0	22	(6)	16
Total at 31.12.2008	738	52	250	1 520	1 822	61	2 621	(448)	2 173
<i>Total at 31.12.2007</i>	<i>331</i>	<i>32</i>	<i>170</i>	<i>1 349</i>	<i>1 551</i>	<i>61</i>	<i>1 943</i>	<i>(374)</i>	<i>1 569</i>

2.3 LONG-TERM INVESTMENTS

EUR millions			
	Note	Balance at 31.12.2008	Balance at 31.12.2007
Investment in Associates	2.3.1	278	246
Interest in Joint Ventures	2.3.2	145	32
Guarantee Fund	2.3.3	1 091	1 149
Available-for-Sale assets	2.3.4	564	533
Held for trading assets	2.3.4	0	13
Total Investments		2 078	1 973

This heading covers investments made with a view to establishing permanent links and support of the activities of the European Communities. It also includes the net assets of the Guarantee Fund.

2.3.1 Investments in associates: European Investment Fund (EIF)

EUR millions	
	Amount
Amount at 31 December 2007	246
Acquisitions	33
Share of net surplus/(deficit)	10
Other equity movements (dividend)	(11)
Amount at 31 December 2008	278

The European Investment Fund (EIF) is the European Union's financial institution specialising in providing risk capital and guarantees to SMEs. Under the Council Decision of 6 June 1994 the European Communities, represented by the Commission, originally subscribed for a total of ECU 600 million of the EIF's capital, being 600 shares or 30% of the EIF's capital. Following a capital increase during 2007 the Commission subscribed for further shares meaning that at 31 December 2008, it has subscribed for a total amount of EUR 786 million (out of EUR 2 865 million) of the share capital of the EIF. This represents 27.43% of the total EIF share capital. The Commission has paid in 20%, the balance being uncalled corresponding to an amount of EUR 629 million – see also note 5.13.2.

Under an agreement between the Commission and the European Investment Bank (EIB) signed in 2005, the Commission is entitled to sell its shares at any time to the EIB at the price corresponding to the EIF valuation divided by the total number of issued shares. The value of the put option is close to nil since the formula used for determining the sale price of the shares is similar to the one used to determine the net equity of the EIF.

The Communities' investment in the EIF is accounted for using the equity method, in accordance with the EC accounting rules. The shareholding is thus valued at 27.43 % of the EIF's net assets, which at 31 December 2008 amounted to EUR 278 million (2007: EUR 246 million), of which EUR 10 million concerns the result for 2008. A dividend of EUR 6 million relating to the financial year 2007 was received in 2008.

2.3.2 Interests in joint ventures

EUR millions

	Galileo	SESAR	ITER Int	Total
Amount at 31 December 2007	0	10	22	32
Acquisitions	0	100	69	169
Share of net surplus/(deficit)	0	(7)	(49)	(56)
Amount at 31 December 2008	0	103	42	145

Galileo Programme

For the implementation of the In Orbit Validation (IOV) phase of the Galileo programme, a joint undertaking, within the meaning of Article 171 of the Treaty, was set-up by the Council Regulation 876/2002 for a period of 4 years (2002 to 2006.) The aim of this legal entity was to ensure the unity of the administration and the financial control of the Galileo programme for its development, and to this end to mobilise the funds assigned to that programme. The founding members were the European Communities, represented by the Commission, and the European Space Agency (ESA). The Commission, through grants given under the trans-European networks (TEN) budget, made available to the Galileo Joint Undertaking (GJU) the funds to co-finance the activities of this IOV phase.

The GJU was put into liquidation at the end of 2006 and the process is still ongoing. The net assets of the GJU in liquidation at year-end amounted to EUR 0. The GJU is accounted for using the equity method. As the entity was inactive and still undergoing liquidation in 2008, there were no revenues or expenditures incurred. The value of the investment at 31 December 2008 was EUR 0, being the investment of EUR 585 million less the accumulated share of losses, EUR 585 million.

The European GNSS Supervisory Authority (GSA), a Community agency created in 2004 and consolidated in the Communities accounts, officially took over responsibility from the GJU on 1 January 2007, as the GJU was put into liquidation. While this new body was originally intended to operate the public private partnership, following a decision of the Council made in November 2007 the Galileo programme is now to be financed entirely from the EU budget. Furthermore, following Regulation 638/2008 of 25 July 2008, it is now the Commission who manages the programme on behalf of the EC. An agreement between the Commission and ESA is expected to be signed in 2009 that will clarify some of the practical issues, including the transfer of created assets to the Commission at the end of the IOV stage (expected at end 2010).

It should be noted that the Commission has, up to end 2008 and including the above investment in the GJU, paid EUR 795 million to the IOV phase of the Galileo programme. As this programme is currently still in the research phase, under the EC accounting rules, the money spent has been expensed and no intangible assets have been recognised. Only when the project moves to the development stage will it be possible to capitalise such expenditure. The total (indicative) Commission contribution foreseen for the next phase of the Galileo programme (from 2008 to 2013) is EUR 2 645 million.

SESAR

The aim of this Joint Undertaking is to ensure the modernisation of the European air traffic management system and the rapid implementation of the European air traffic management Master Plan by coordinating and concentrating all relevant research and development efforts in the Communities. The SESAR Joint Undertaking started its activities in mid-2007 and shall cease to exist eight years after an endorsement by the Council of the European air traffic management Master Plan. The European Communities, represented by the Commission, and the European Organisation for the Safety of Air Navigation (Eurocontrol), represented by its Agency, are the founding members of the SESAR Joint Undertaking. The members shall have votes in accordance with their respective contributions but, both founding members shall have as a minimum a voting right of 25%. At 31 December 2008, the Commission has contributed 91.73% of the total contribution of all venturers in SESAR. The total (indicative) Commission contribution foreseen for SESAR (from 2007 to 2016) is EUR 700 million. The European Communities' equity investment in this Joint Undertaking is based on SESAR's financial statements covering the period from 10 August 2007 (start of its activities) until 31 December 2008, according to Article 5 of SESAR's Financial Regulation.

ITER International Fusion Energy Organisation (ITER)

ITER involves the European Communities and six other venturers from China, India, Russia, Korea, Japan and USA. ITER was created to manage the ITER facilities, to encourage the exploitation of the ITER facilities by the laboratories, other institutions and personnel in the fusion energy research and development programmes of the members, to promote public understanding and acceptance of fusion energy, and to undertake any other activities that are necessary to achieve its purpose. The members shall have voting rights in proportion of their respective contributions but in general all decisions shall be taken by unanimity. At 31 December 2008, the Commission has contributed 48.46% of the total investment in ITER. The total (indicative) Commission contribution foreseen for ITER (from 2007 to 2041) is EUR 7 649 million.

2.3.3 Guarantee Fund

Net assets of the Guarantee Fund (*)

	EUR millions	
	Balance at 31.12.2008	Balance at 31.12.2007
Available-for-sale assets	887	901
Cash and cash equivalents	205	249
Total assets	1 092	1 150
Total liabilities	(1)	(1)
Net assets	1 091	1 149

(*) After elimination of MFA amounts

The Guarantee Fund for external actions covers loans guaranteed by the Communities as a result of a Council Decision, in particular European Investment Bank (EIB) lending operations outside the European Union and loans under macro-financial assistance (MFA loans) and Euratom loans outside the European Union. It is a long-term instrument to cover any defaulting loans guaranteed by the Communities and can therefore be seen as a long-term investment. This is evidenced by

the fact that nearly 88% of the available-for-sale assets have a maturity of between 1 and 10 years (see also note 7.9). The Fund is endowed by payments from the Communities' general budget equivalent to 9% of the capital value of the operations, the proceeds from interest on investments made from the Fund's assets, and sums recovered from defaulting debtors for whom the Fund has had to activate its guarantee. Any yearly surplus arising shall be paid back to a special heading in the statement of revenue in the general budget of the European Communities.

The European Communities are required to include a guarantee reserve to cover loans to third countries. This reserve is intended to cover the requirements of the Guarantee Fund and, where necessary, activated guarantees exceeding the amount available in the Fund, so that these amounts may be charged to the budget. This reserve of EUR 1 276 million corresponds to the target amount of 9% of the loans outstanding at 31 December 2008. The net assets of the Fund at 31 December 2008 total EUR 1 091 million. The difference between the net assets and the amount of the reserve corresponds to the amount to be paid by the EU budget to the Fund, i.e. EUR 185 million. Fair-value changes of the available-for-sale debt security portfolio have been recognised in equity in 2008 totalling EUR 15 million (2007: EUR (19) million).

The financial risk management policies of the Guarantee Fund are described in note 7.

2.3.4 Other investments

2.3.4.1 Available-for-sale assets

This heading includes investments and participations purchased to help beneficiaries develop their business activities.

Long-term Available-for-sale assets

	EUR millions					
	EBRD	RCO	ETF Start up	EFSE	Other	Total
Amounts at 31.12.2007	157	218	98	55	5	533
Acquisitions	0	17	51	7	1	76
Disposals/withdrawals	0	(27)	(4)	0	(2)	(33)
Revaluation surplus/(deficit) t/f to equity	0	1	(6)	5	(1)	(1)
Impairment loss	0	(5)	(6)	0	0	(11)
Amounts at 31.12.2008	157	204	133	67	3	564

European Bank for Reconstruction and Development (EBRD) investment

The Commission has subscribed to 3% of the EBRD's total capital of EUR 20 billion. At balance sheet date, the called up amount was EUR 157 million, of which EUR 156 million has been paid. Payments outstanding on called up capital (EUR 1 million) are recorded under short-term liabilities and accounted for at amortised cost. Payments outstanding on non-called up capital amount to EUR 443 million and are included as contingent liabilities in the off-balance sheet. As the EBRD is not quoted on any stock exchange and in view of the contractual restrictions included in the EBRD's articles of incorporation relating, amongst others, to the sale of participating

interests, capped at acquisition cost and only authorised to existing shareholders, the Commission's shareholding is valued at cost less any write-down for impairment.

Risk Capital Operations (RCO)

Under risk capital operations amounts are granted to financial intermediaries to finance equity investments. Although some of these contracts have the characteristics of loans, since the vast majority of these finance contracts do not have the basic and constituent characteristics of a loan (as there is no fixed reimbursement schedule or interest rate agreed for the principal consideration), the entire portfolio is treated as indirect equity investments. They are held at historic cost less any provisions for impairment, as there are no quoted market prices available in an active market and their fair value cannot currently be reliably measured.

Other investments

The most significant amounts concern the Growth & Employment programme, the MAP programme and the CIP programme, under the trusteeship of the EIF, supporting the creation and financing of start-up SMEs by investing in suitable specialised venture capital funds (EUR 133 million). Also included is EUR 67 million relating to the European Fund for South East Europe, an investment company with variable share capital (SICAV). The overall objective of EFSE is to foster economic development and prosperity in South East Europe through the sustainable provision of additional development finance via local financial intermediaries. The current voting rights of the Communities amount to 14.7%.

2.3.4.2 Held for trading assets

See **2.8.2**, these amounts now relate to the short-term.

2.4 LOANS

This heading covers loan amounts owed to the Communities maturing in over one year:

	<i>EUR millions</i>	
	Balance at 31.12.2008	Balance at 31.12.2007
Loans granted from the EC budget & ECSC	179	189
Loans granted from borrowed funds	3 386	1 617
Net assets	3 565	1 806

2.4.1 Loans granted from the European Communities budget and the ECSC in liquidation

EUR millions

	Loans with special conditions	ECSC in Liquidation	Total
Total at 31.12.2007	155	34	189
Repayments	(17)	(8)	(25)
Changes in carrying amount	12	3	15
Total at 31.12.2008	150	29	179

Loans with Special Conditions

This item covers loans with special conditions granted at preferential rates as part of co-operation with non-member countries. All amounts fall due more than 12 months after year-end. The effective interest rates on these loans vary between 7.39% and 12.36%.

Housing loans of the ECSC in liquidation (ECSC)

Housing loans are loans granted by the ECSC from its own funds in accordance with articles 54 and 54.2 of the ECSC Treaty. These loans are granted at a fixed rate of 1% and consequently, considered as loans at preferential rates. The effective interest rates on these loans are 2.806% - 22.643%. In the case these loans, the transaction price is used as fair value at inception independently from any preferential interest rate granted, for practicable reasons and based on materiality considerations.

2.4.2 Loans granted from borrowed funds

EUR millions

	MFA loans	Euratom loans	BOP	ECSC in Liquidation	Total
Total at 31.12.2007	795	482	0	478	1 755
New loans	0	15	2 000	0	2 015
Repayments	(132)	(5)	0	(67)	(204)
Exchange differences	0	1	0	(61)	(60)
Changes in carrying amount	0	1	4	(12)	(7)
Total at 31.12.2008	663	494	2 004	338	3 499
Amount due < 1 year	25	0	0	88	113
Amount due > 1 year	638	494	2 004	250	3 386

Macro Financial Assistance (MFA) loans

MFA is a policy-based financial instrument of untied and undesignated balance-of-payment and/or budget support to partner third-countries geographically close to the EU territory. It takes the form of medium/long term loans or grants or an appropriate combination of both and generally complements financing provided in the context of an IMF-supported adjustment and reform program.

The Commission has not received third-party guarantees for these loans, but they are guaranteed by the Guarantee Fund (see note 2.3.3).

Euratom loans

Euratom is one of the legal entities of the European Communities and is represented by the European Commission. The objective of this entity is to grant loans to Member States and non-Member States as follows:

- Euratom loans to Member States are granted for the purpose of financing investment projects in the Member States relating to the industrial production of electricity in nuclear power stations and to industrial fuel cycle installations.
- Euratom loans to non-Member States are granted to improving the level of safety and efficiency of nuclear power stations and installations in the nuclear fuel cycle which are in service or under construction.

The Commission has received EUR 486 million (2007: EUR 474 million) of guarantees from third-party guarantors in respect of these loans.

Balance of Payment (BOP) loans

BOP is a policy based financial instrument that has been reactivated to provide financial assistance to Member States of the European Union during the current economic crisis. It provides medium-term financial support enabling loans to be granted to one or more Member States which are experiencing, or are seriously threatened with, difficulties in their balance of payments or capital movements. Only Member States which have not adopted the Euro may benefit from this Community facility. These loans are guaranteed by the general budget of the European Union.

EUR 6.5 billion has been made available for Hungary, of which EUR 2 billion (above) was disbursed in 2008, the maturity date being in December 2011. A further EUR 3.5 billion was disbursed in the first 7 months of 2009 (maturity dates: November 2014 and April 2016). EUR 3.1 billion was made available to Latvia and EUR 1 billion of this was disbursed, also in the first quarter of 2009, with a maturity date of April 2014. EUR 5 billion was also made available to Romania during the second quarter of 2009.

For the above loans (MFA, Euratom and BOP), the effective interest method is not applied separately to loans and borrowings as they have the characteristics of back-to-back operations. The differences between the loan and the borrowing conditions and amounts are not material. Thus, there is no relevant information missing that would affect the reader's understanding of the underlying transactions. The transaction costs are directly expensed in the economic outturn account.

ECSC in liquidation loans

This item mainly includes loans granted by the ECSC in liquidation on borrowed funds in accordance with articles 54 and 56 of the ECSC Treaty as well as three unquoted debt securities issued

by the European Investment Bank (EIB) as substitute of a defaulted debtor. These debt securities will be held till their final maturity (2017 and 2019) in order to cover the service of related borrowings. The changes in carrying amount correspond to the change in accrued interests plus the amortisation of the year of premiums paid and transaction cost incurred at inception, calculated according to the effective interest rate method.

The effective interest rates (expressed as a range of interest rates) were as follows:

Loans	31.12.2008	31.12.2007
Macro Financial Assistance (MFA)	3.022% - 5.29%	3.82% - 4.822%
Euratom	3.428% - 5.76%	4.446% - 5.76%
BOP	3.25%	-
ECSC in liquidation	3.072% - 5.8103% (*)	4.375% - 12.077% (*)

(*) higher bound value relates to the fixed rate loan covered by the interest rate swap (see note 2.8.2)

2.5 LONG-TERM PRE-FINANCING

EUR millions

Management type	Balance at 31.12.2008	Balance at 31.12.2007
Direct centralised management	1 351	434
Indirect centralised management	275	318
Decentralised management	90	64
Shared management	26 764	12 875
Joint management	543	324
Total Long-Term Pre-financing	29 023	14 015

The most significant long-term pre-financing amounts relate to Structural Actions: the regional development fund, the social fund, the agricultural fund for rural development, the cohesion fund and the fisheries fund. As many of these projects are long-term in nature, it is necessary that the related advances are available for more than one year. Thus these pre-financing amounts are shown as long-term assets. The amount of the above long-term pre-financing for which the European Communities is entitled to receive interest from beneficiaries amounts to EUR 1 587 million.

The increase in 2008 principally results from a second advance payment (EUR 13 888 million) made to Member States to finance the 2007-13 programmes of those funds. Advance payments made under the 7th Research Framework Programme also explain an increase of about EUR 780 million (of the total increase of EUR 917 million) in long-term pre-financing directly managed by the Commission.

Certain pre-financing amounts paid out under the 7th Research Framework Programme for research and technological development (FP7) are effectively covered by a Participants Guarantee Fund (PGF). This is a mutual benefit instrument set up to cover the financial risks incurred by the Communities and the participants during the implementation of the indirect actions of FP7, its capital and interests constituting a performance security. All participants of indirect actions taking the form of a grant (and thus a pre-financing in the Commission's books) contribute 5% of the pre-financing that they receive to the PGF's capital for the duration of the action. As such the participants are the owners of the PGF, the Communities (represented by the Commission) acting as their executive agent. At the end of an indirect action, participants shall recover

their contribution to the capital in full, except where the PGF incurs losses due to defaulting beneficiaries – in this case participants shall recover, at a minimum, 80% of their contribution. The Participants Guarantee Fund thus guarantees the financial interest of both the Communities and the participants. As at 31 December 2008 a total amount of EUR 283 million has been contributed to the PGF by the participants (2007: EUR 38 million).

2.6 LONG-TERM RECEIVABLES

	<i>EUR millions</i>	
	Balance at 31.12.2008	Balance at 31.12.2007
Due from Member States	24	93
ECSC staff loans	13	15
Other	2	13
Guarantees and deposits	6	6
Total	45	127

Amounts to be received from Member States refer to amounts due to the ECSC in liquidation from former accession countries.

CURRENT ASSETS

2.7 INVENTORIES

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Scientific Equipment:		
Scientific material	8	9
Fissile material & heavy water	20	19
Scientific material for re-sale	45	45
Vaccinations	6	8
Production materials	1	7
Publications & goods for re-sale	5	0
Total	85	88

The stock of the scientific equipment is held and managed by the JRC. A major part is the stock of reference materials, nuclear and non-nuclear, located in Geel. This stock has a strategic nature and is maintained to be able to cope with unpredictable future requests in crisis situations. It is valued at net realisable value at year-end, by applying a value reduction to the selling price; the value reduction takes into account storage and other costs incurred when selling the stock (cost of distribution, costs for certification, etc.) and totals EUR 43 million. The consumables of the JRC, which totalled EUR 7 million at 31 December 2007 and were reported under "Production materials", are no longer treated as stock.

The stock of publications held and/or managed by the Publications Office is valued at the lower of cost and net realisable value, which is approximately zero. Additionally, publications distributed for free have been fully written down as their net realisable value is zero. These write downs total EUR 16 million and result in the carrying amount for publications shown above.

2.8 SHORT-TERM INVESTMENTS

Short-term investments consist of available-for-sale financial assets, which are purchased for their investment return or yield, or held to establish a particular asset structure or a secondary source of liquidity and may therefore be sold in response to needs for liquidity or changes in interest rates.

2.8.1 Short-term available-for-sale assets

EUR millions

	ECSC in Liquidation	Other	Total
Amounts at 31.12.2007	1 417	3	1 420
Acquisitions	304	79	383
Disposals and withdrawals	(275)	-	(275)
Adjustment to amortised cost	2	-	2
Change in carrying amount	(8)	-	(8)
Revaluation surplus/(deficit) t/f to equity	24	-	24
Amounts at 31.12.2008	1 464	82	1 546

Regarding the ECSC in liquidation amounts, all investments are debt securities denominated in EUR and quoted in an active market. Details of the investment portfolio by issuer type and by rating are described in note 7. At 31 December 2008 debt securities (expressed at their fair value) reaching final maturity in the course of 2009 amount to EUR 126 million (2007: EUR 146 million).

2.8.2 Short-term held for trading assets

The ECSC in liquidation (ECSC) entered into an interest rate swap agreement and combination of both interest rate swap and cross-currency interest rate swap agreement. The fair value of these interest rate swaps was obtained by discounting the net fixed cash flows using zero-coupon swap rates on the balance sheet date. This fair value (including accrued interests) of these swaps with final maturity of less than three months after the balance sheet date is **EUR 7 million** (2007: EUR 13 million, long-term).

2.9 SHORT-TERM PRE-FINANCING

The timing of the recoverability or utilisation of the pre-financing governs whether it is disclosed as current or long-term pre-financing asset. The utilisation is defined by the project's underlying agreement. All repayments or utilisation due before twelve months of the reporting date is disclosed as short-term pre-financing and therefore as current assets. See also note 2.5 for further details concerning long term pre-financing.

Accrued charges represent the amount of eligible costs that were estimated to have been incurred by the beneficiaries of the outstanding pre-financing amounts at year-end, but not yet reported to the Communities. These amounts are also taken as expenses in the economic outturn account of the reporting period.

The big decrease in short-term pre-financing is due to the fact that for the Structural Actions under shared management, some projects being funded are in the process of winding down (programmes related to the period 2000-2006), while for the new projects (programmes related to the period 2007-2013) a pre-financing instalment was paid in 2008, but was classified in long-term assets as explained in note 2.5. The amount of short-term pre-financing for which the European Communities are entitled to receive interest from beneficiaries amounts to EUR 3 798 million, taking into account an estimate of the utilisation of the funds not yet reported to the Communities.

Note also that the split of amounts outstanding between management types is available for the pre-financing payments made since 2005. The unallocated pre-financing amounts are those first included in the opening balance sheet of 2005 and are shown separately on a single line in 2007 comparative figures since no information on the split by budget management type was then available. The unallocated amount in 2007 mainly concerns shared management. For the first time in 2008, the remaining unallocated amounts at 31 December 2008 were analysed and reclassified to the appropriate budget management type.

Short-Term Pre-Financing

EUR millions

Management type	Balance at 31.12.2008	Balance at 31.12.2007
Direct centralised management	13 554	11 567
<i>Action grants</i>	<i>11 439</i>	<i>9 715</i>
<i>Functioning grants</i>	<i>129</i>	<i>142</i>
<i>Procurement (operational)</i>	<i>713</i>	<i>638</i>
<i>Operational</i>	<i>933</i>	<i>457</i>
<i>Administrative credits</i>	<i>340</i>	<i>615</i>
less <i>Accrued charges</i>	<i>(10 499)</i>	
Direct centralised management - net	3 055	
Indirect centralised management	4 563	2 265
<i>National agencies</i>	<i>2 880</i>	<i>1 736</i>
<i>Action grants</i>	<i>1 608</i>	<i>485</i>
<i>Procurement (operational) & others</i>	<i>49</i>	<i>29</i>
<i>Others</i>	<i>26</i>	<i>15</i>
less <i>Accrued charges</i>	<i>(3 633)</i>	
Indirect centralised management - net	930	
Decentralised management		
<i>Gross amount</i>	<i>1 565</i>	<i>1 280</i>
less <i>Accrued charges</i>	<i>(1 239)</i>	
Decentralised management - net	326	
Shared management		
<i>Gross amount</i>	<i>22 979</i>	<i>3 229</i>
less <i>Accrued charges</i>	<i>(17 675)</i>	
Shared management - net	5 304	
Joint management		
<i>Gross amount</i>	<i>2 005</i>	<i>1 135</i>
less <i>Accrued charges</i>	<i>(1 397)</i>	
Joint management - net	608	
Implemented by Institutions & Agencies		
<i>Gross amount</i>	<i>65</i>	<i>204</i>
less <i>Accrued charges</i>	<i>(26)</i>	
Institutions & Agencies - net	39	
Unallocated pre-financing balances		21 404
Total gross pre-financing amounts		41 084
less <i>Accrued charges</i>		<i>(20 501)</i>
Total Short-Term Pre-financing	10 262	20 583

Guarantees received in respect of pre-financing:

These are guarantees that the European Communities in certain cases requests from beneficiaries when paying out advance payments (pre-financing). There are two values to disclose for this type of guarantee, the “nominal” and the “on-going” values. For the “nominal” value, the generating event is linked to the existence of the guarantee. For the “on-going” value, the guarantee’s generating event is the pre-financing payment and/or subsequent clearings.

At 31 December 2008 the “nominal” value of guarantees received by the Commission in respect of pre-financing amounts EUR 968 million. The “on-going” value of those guarantees amounts EUR 769 million. At 31 December 2007 these values were EUR 1 007 million and EUR 772 million respectively. This difference effectively acts as a cover for pre-financing that has been cleared and charged to expenses, but which may have to be recovered in the future.

2.10 SHORT-TERM RECEIVABLES

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Current portion of long-term receivables	114	160
Current receivables	6 128	5 441
Sundry receivables	23	27
Accrued income and deferred charges	5 655	6 423
Total	11 920	12 051

2.10.1 Current portion of long-term receivables

These amounts concern primarily loans with remaining final maturities less than 12 months after the balance sheet date (EUR 113 million, see note 2.4 above for more details).

2.10.2 Current receivables

EUR millions

Account group	At 31.12.2008			At 31.12.2007		
	Gross amount	Written down	Net value	Gross amount	Written down	Net value
Customers	4 833	(175)	4 658	3 897	(171)	3 726
Member States	2 576	(1 204)	1 372	2 873	(1 256)	1 617
Others	111	(13)	98	111	(13)	98
Total	7 520	(1 392)	6 128	6 881	(1 440)	5 441

2.10.2.1 Customers

These are recovery orders entered in the accounts at 31 December 2008 as established entitlements to be recovered and not already included under other headings on the assets side of the balance sheet. The largest portion of this balance relates to fines issued by the Commission, being a gross amount of EUR 4 590 million. Guarantees totalling EUR 2 403 million had been received by 31 December 2008 (2007: EUR 2 563 million) in respect of these receivables, indi-

cating that the recipient of the fine wishes to appeal it. Since year-end a further EUR 1 304 million of payments were received in relation to this receivable as well as additional guarantees of EUR 744 million.

2.10.2.2 Receivables from Member States

(EUR million)

	Balance at 31.12.2008	Balance at 31.12.2007
EAGF receivables		
EAGF receivables	684	902
Written down	(392)	(483)
Total	292	419
VAT paid and recoverable from Member States	36	24
Own resources		
Established in the A account, pending recovery	97	75
Established in the separate account, pending recovery	1 260	1 333
Written down	(812)	(773)
Other	16	38
Total	561	673
Other receivables from Member States	483	501
Total	1 372	1 617

EAGF Guarantee receivables

This item covers the amounts owed by beneficiaries of EAGF at 31 December 2008, as declared and certified by the Member States at 15 October 2008, and less 20% of the amount, which the Member States are allowed to retain to cover administrative costs. An estimation is made for the receivables arising after this declaration and up to 31 December 2008. The Commission also estimates a write-down for the amounts owed by beneficiaries that are unlikely to be recovered. The fact that such an adjustment is made does not mean that the Commission is waiving future recovery of these amounts.

Own resources

It should be noted that Member States are entitled to withhold 25% of traditional own resources as collection costs, thus the above figures are shown net of this deduction. Based on the estimations sent by Member States, a write-down of EUR 812 million has been deducted from receivables from Member States. However, this does not mean that the Commission is waiving recovery of the amounts covered by this value adjustment.

Other receivables from Member States

Other receivables from Member States include EUR 120 million of recovery of expenses and EAGF advances of EUR 244 million.

2.10.3 Accrued income and deferred charges

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Accrued income	5 402	6 129
Deferred charges	223	243
Other	30	51
Total	5 655	6 423

The main amount under this heading is accrued income of EUR 5 402 million:

EUR millions

Accrued Income	Balance at 31.12.2008	Balance at 31.12.2007
Own resources	2 576	2 730
Agricultural assigned revenue Nov & Dec	1 261	1 310
Sugar restructuring	911	1 516
EAGF: non-executed conformity correction decisions	368	350
Cohesion & Regional development Funds: financial corrections	146	-
Fisheries fund	32	82
Other accrued income	108	141
Total accrued income	5 402	6 129

Also included under this heading are deferred charges totalling EUR 223 million of which the main amounts are anticipated payments of EUR 34 million for office rental, and EUR 25 million for office transformation, EUR 16 million interest on fixed asset leases, EUR 37 million for the European school and EUR 59 million paid under bilateral fisheries agreements with third countries.

Other accrued income is primarily late interest income, accrued bank interest and accrued interest on pre-financing amounts.

2.11 CASH AND CASH EQUIVALENTS

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Unrestricted cash		
Accounts with Treasuries & Central Banks	15 039	11 313
Current accounts	1 415	956
Imprest accounts	35	81
Transfers (cash in transit)	26	2
Short-term deposits and other cash equivalents	1 456	1 367
Total	17 971	13 719
Restricted cash	5 753	5 037
Total	23 724	18 756

Cash & cash equivalents include the following for the purposes of the cash flow statement.

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Cash and cash equivalents	23 724	18 756
Cash and cash equivalents - Guarantee Fund (see note 2.3.3)	205	249
Total	23 929	19 005

2.11.1 Unrestricted cash

Unrestricted cash covers all the funds which the Commission keeps in its accounts in each Member State and EFTA country (treasury or central bank), as well as in current accounts, imprest accounts, short-term bank deposits and petty cash.

The relatively high balance with Treasuries and Central Banks is due to the fact that following the rectifying budget at year-end, EUR 6 627 million had to be repaid to Member States, which was done in early 2009. The related liability is shown under current payables – see also note 2.18.2 below. Also impacting the cash balance at year-end was cash from assigned revenue not yet used (EUR 5.2 billion) which cannot be refunded to Member States and EUR 2.1 billion, which was withheld to cover payment appropriations carried over to 2009. The budget outturn of EUR 1.8 billion also has to be repaid to Member States through deduction from their amounts due for 2009.

2.11.2 Restricted cash

Restricted cash refers to amounts received in connection with fines issued by the Commission for which the case is still open. These are kept in specific deposit accounts that are not used for any other activities.

NON CURRENT LIABILITIES

2.12 EMPLOYEE BENEFITS

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Pensions – Staff	32 867	30 212
Pensions – Others	696	481
Joint Sickness Insurance Scheme	3 993	2 787
Total	37 556	33 480

2.12.1 Pensions – Staff

At 31 December 2008, the rules concerning the pension scheme (PSEO: Pension Scheme of European Officials) are defined by the latest version of the Staff Regulations of Officials of the European Communities (in force since 1 May 2004). The rules regarding the staff pensions are directly applicable in all Member States. The arrangement covers the various types of pensions and allowances (seniority, invalidity, survival). In accordance with Article 83 of the Staff Regulations, the payment of the benefits provided for in the pension scheme constitutes a charge on the Communities' budget. The provision for this charge is not funded, but the Member States guarantee the payment of these benefits collectively according to the scale fixed for the financing of this expenditure. In addition, officials contribute one third to the long-term financing of this scheme via a compulsory contribution. The amount of this contribution is revised every year and updated as needed to guarantee that these contributions (currently 10.9% of basic salary) are sufficient to finance each year one third of the rights acquired during the year.

The liabilities of the pension scheme were assessed on the basis of the number of staff and retired staff at 31 December 2008 and on the rules of the Staff Regulations applicable at this date. This valuation took into account the benefits linked to seniority, invalidity and survival (different types of pensions as well as invalidity allowance). It was carried out in accordance with the methodology of IPSAS 25. This accounting standard requires the employer to determine its commitment valued on an actuarial basis, taking into account both the contractual benefits during the active lifetime of employees, and the foreseeable increases in salaries.

The actuarial valuation method used to calculate this liability is known as the projected unit credit method. The main actuarial assumptions available at the valuation date and used on the valuation were as follows:

- (1) The nominal discount rate was based on government bonds in the Euro zone in December 2008 for a duration close to that of the scheme (19 years), as an estimation of the zero coupon Euro yield curve in December 2008 for the same duration, being 3.9%. According to IPSAS 25, the inflation rate must be an expected inflation rate over the duration of the scheme: it must then be based on prospective values as expressed by index-linked bonds on the European financial markets. The expected long-term inflation rate was 1.8%, so the real discount rate was 2.1%.
- (2) The 2008 International Civil Servants Life Table was used in the calculation. This new life table was developed in 2008 in cooperation with Joint Pensions Administrative Section and was used

by the first time in the calculation of the contribution rate for pension in force from 1 July 2008. This new table replace the former EU-2004 Life table used in past liability valuations.

- (3) The general salary growth (GSG), being equal to the general pension revaluation, was based on a 12 years moving average of revaluation statistics of salaries and pensions of the period 1997 to 2008, being equal to 0.3%; The individual salary progression (ISP) beyond the rate of the GSG was updated to take account of 2008 promotions. This table details the ISP rate by grade and step and the expected retirement year from 2009 till 2053.
- (4) The matrimonial coefficients for active officials at the time of their departure on retirement were based on statistics of the population of officials and are equal to 84% for men and 38% for women - the actual marriage situation was taken for former officials (pensioners and invalids).
- (5) The departure on retirement is supposed to occur at the time when the official benefits from his full rights, taking into account the reduction for early retirement and the Barcelona Incentive for late retirement, at the latest at 65 years old.
- (6) The calculations of gross pensions and family allowances are based on the Staff Regulations.

Liabilities cover the rights previously defined for the following persons:

- (1) Staff in active employment at 31 December 2008 in all the Institutions and Agencies included in the pension scheme;
- (2) Staff in a deferred situation, i.e. who have temporally or definitively left the Institutions but leaving their pension rights in the pension scheme (exclusively those having accumulated at least 10 years of service);
- (3) Former officials and other servants benefiting from a retirement pension;
- (4) Former officials and other servants benefiting from a invalidity pension;
- (5) Former officials and other servants benefiting from an invalidity allowance;
- (6) The recipients of a survivor pension (widows or widowers, orphans, dependants).

The results obtained within the framework of this valuation were compared with the estimates based on the previous actuarial valuation on 31 December 2007.

<i>EUR millions</i>	
Movement in Staff Pension Liability	Amount
Gross pension liability as at 31 December 2007	33 222
Service cost	1 161
Interest cost	1 593
Benefits paid	(978)
Actuarial losses	1 237
Change due to newcomers	260
Gross pension liability as at 31 December 2008	36 495

The principal points to note are:

- The gross actuarial liability was valued at EUR 36 495 million at 31 December 2008 (2007: EUR 33 222 million). Added to this is a co-efficient corrector effect of EUR 1 277 million (2007: EUR 1 345 million). Taxes payable by beneficiaries are deducted from the total gross liability to arrive at the net liability included on the balance sheet (since tax is deducted on the payment of pensions and credited to the Communities' revenue in the year of payment.) This net liability (gross liability less taxes) at 31 December 2008 has thus been estimated at EUR 32 867 million.
- The real discount rate changed from 2.4% in 2007 to 2.1% in 2008; considering also the general salary growth effect (0.4% in 2007 and 0.3% in 2008), the net discount rate changed from 2.0% in 2007 to 1.8% in 2008. This decrease is one of the main reasons for the increase in the overall liability.
- The main actuarial loss is due to the decrease of the discount rate (EUR 1 867 million) which is partly compensated by gains due to other actuarial assumptions (EUR 410 million).
- The members of the staff pension scheme increased by 2 919 individuals.
- The full movement in the liability goes through the economic outturn account.

2.12.2 Pensions – Others

This refers to the liability relating to the pension obligations towards Members and former Members of the Commission, the Court of Justice (and Court of First Instance) and the Court of Auditors, the Secretaries General of the Council, the Ombudsman, the European Data Protection Supervisor, and the European Union Civil Service Tribunal. Also included under this heading is a liability relating to the pensions of certain Members of Parliament.

2.12.3 Joint Sickness Insurance Scheme

A valuation is also made for the estimated liability that the Communities have regarding its contributions to the Joint Sickness Insurance Scheme in relation to its retired staff. This liability has been valued at EUR 4 248 million. Plan assets are deducted from this gross liability and totalled EUR 255 million (2007: EUR 260 million). The calculations take into account active officials and pensioners from the various EU Institutions and Agencies, and their families, and active Members and pensioners from the Commission, the Court of Auditors, the Court of Justice, the Council, the European Data Protector Supervisor and the European Ombudsman. The discount rate and the general salary growth used in the calculation are the same as those used in the staff pension valuation (see above). Actuarial losses due to changes in actuarial assumptions (e.g. discount rate) plus the increase in average health care costs are the main reasons for the significant increase in the liability.

		EUR millions
Movement in Joint Sickness Insurance Liability		Amount
Gross liability as at 31 December 2007		3 047
Normal cost		133
Interest cost		146
Benefits paid		(92)
Actuarial losses		1 014
Gross liability as at 31 December 2008		4 248
Less Plan assets		(255)
Net Liability as at 31 December 2008		3 993

2.13 LONG-TERM PROVISIONS

		EUR millions					
	Amount at 31.12.2007	Additional provisions	Unused amounts reversed	Amounts used	Transfer to short-term	Present Amount at value 31.12.2008 discounting	
Legal cases	297	169	(39)	(6)	0	0	421
Nuclear site dismantlement	744	0	0	0	(34)	109	819
Financial	14	8	0	0	(11)	1	12
Other	24	86	(16)	(2)	(3)	0	89
Total	1 079	263	(55)	(8)	(48)	110	1 341

Legal cases

This is the estimate of amounts that will probably have to be paid out after 2009 in relation to a number of ongoing legal cases. The largest portion, EUR 403 million, concerns court cases pending at 31 December 2008 in relation to financial corrections for EAGF Guarantee expenditure and other court cases concerning agricultural expenditure.

Nuclear site dismantlement

In 2002 a consortium of independent experts conducted a study into the estimated costs of the decommissioning of the JRC nuclear facilities and waste management programme. Their estimate of EUR 1 145 million (including EUR 76 million as an estimate of the cost required for the “green field” option, i.e. total destruction of all the buildings) is taken as the basis for the provision to be included in the financial statements. In accordance with the Communities’ accounting rules, this provision is indexed for inflation (at a rate of 2.5%) and then discounted to its net present value (using the Euro zero-coupon swap curve). At 31 December 2008, this resulted in a provision of EUR 1 072 million, less the costs incurred to date of EUR 164 million, giving EUR 908 million split between amounts expected to be paid in 2009 (EUR 89 million) and afterwards (EUR 819 million.).

In view of the estimated duration of this programme (around 30 years), it should be pointed out that there is some uncertainty about this estimate, and the final cost could be different from the amounts currently entered.

Financial provisions

Under the SME Guarantee Facility 1998, the SME Guarantee Facility 2001 and the SME Guarantee Facility 2007 under CIP, the European Investment Fund (EIF) is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission. The financial risk linked to the drawn and undrawn guarantees is, however, capped. As at the balance sheet date, financial provisions correspond for both facilities to the payment obligations towards financial intermediaries minus the net payment demands made up to that date. Long-term financial provisions are discounted to their net present value (using the Euro zero-coupon swap curve).

Other provisions

The main amount here concerns the estimates of the Communities' contributions to various Member States under the Emergency Veterinary Fund for certain animal disease outbreaks, totalling EUR 101 million (2007: EUR 42 million) split between amounts expected to be settled in 2009 (EUR 14 million) and afterwards (EUR 87 million).

2.14 LONG-TERM FINANCIAL LIABILITIES**2.14.1 Borrowings**

<i>EUR millions</i>						
Name	Balance at 31.12.2007	New borrowings	Repayments	Exchange differences	Change in carrying amount	Balance at 31.12.2008
MFA	792	0	(129)	0	0	663
BOP	0	2 000	0	0	4	2 004
EURATOM	482	15	(5)	1	1	494
ECSC in liquidation	424	0	(66)	(73)	(3)	282
Total	1 698	2 015	(200)	(72)	2	3 443

Split of borrowings between long-term & short-term

<i>EUR millions</i>			
Borrowings	Maturity < 1 year	Maturity > 1 year	Total at 31.12.2008
MFA	25	638	663
BOP	0	2 004	2 004
EURATOM	0	494	494
ECSC in liquidation	69	213	282
Total	94	3 349	3 443

This heading includes borrowings due by the European Communities maturing in over one year (note that the previous year's figures for MFA are net of amounts held by the Guarantee Fund). Borrowings include debts evidenced by certificates amounting to EUR 3 131 million (2007: EUR 1 344 million). The changes in carrying amount correspond to the change in accrued interests plus, in the case of ECSC in liquidation's borrowings, the amortisation of the year of any material transaction costs incurred at inception, calculated according to the effective interest rate method. The effective interest rates (expressed as a range of interest rates) were as follows:

Borrowings	31.12.2008	31.12.2007
Macro Financial Assistance (MFA)	3.022% - 5.29%	3.816% - 4.822%
Euratom	3.348% - 5.6775%	4.366% - 5.6775%
BOP	3.25%	-
ECSC in liquidation	4.939% - 11.875% (*)	4.375% - 11.875% (*)

(*) higher bound value relates to the fixed rate borrowing covered by the interest rate swap (see note 2.8.2)

2.14.2 Held for trading liabilities

EUR millions

ECSC in liquidation held swaps	Balance at 31.12.2008	Balance at 31.12.2007
Long-term	0	7
Short-term	25	4
Total	25	11

See held for trading assets, notes 2.3.4.2 & 2.8.2 above, for more details.

2.15 OTHER LONG-TERM LIABILITIES

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Finance Leasing debts	1 770	1 519
Buildings paid for in instalments	403	427
Other	53	43
Total	2 226	1 989

This item covers primarily leasing liabilities due in more than one year (see note 2.2 above). Also included are amounts relating to certain buildings that the Commission bought where the purchase price will be paid off in instalments - these are not leasing contracts since title passed to the Commission immediately.

CURRENT LIABILITIES**2.16 SHORT-TERM PROVISIONS**

EUR millions

	Amount at 31.12.2007	Additional provisions	Unused amounts reversed	Amounts used	Transfers to/from other headings	Present value discounting	Amount at 31.12.2008
Legal cases	28	7	(3)	(16)	0	0	16
Nuclear site dismantlement	78	0	0	(25)	34	2	89
Financial	233	1	0	(44)	11	1	202
Other	30	28	(10)	(10)	3	0	41
Total	369	36	(13)	(95)	48	3	348

This heading includes the portion of provisions which fall due for payment in less than one year's time.

2.17 SHORT-TERM FINANCIAL LIABILITIES

This heading includes borrowings of EUR **94 million** that mature during the 12 months following the balance sheet date (note 2.14.1) and EUR **25 million** relating to held for trading liabilities (note 2.14.2).

2.18 ACCOUNTS PAYABLE

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Current portion of long-term liabilities	64	65
Current payables	12 026	13 939
Sundry payables	115	189
Accrued charges and deferred income	77 472	81 187
Total	89 677	95 380

2.18.1 Current portion of long-term liabilities

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Finance leasing liabilities	52	32
Other	12	33
Total	64	65

2.18.2 Current payables

EUR millions

Type	Balance at 31.12.2008	Balance at 31.12.2007
Member States	11 386	12 328
Suppliers and other	1 175	2 244
Eligibility to be checked	(535)	(633)
Total	12 026	13 939

Current payables include cost statements received by the Communities under the framework of the grant activities. They are credited for the amount being claimed from the moment the demand is received. If the counterpart is a Member State, they are classified as such. It is the same procedure for invoices and credit notes received under procurement activities. The cost claims concerned have been taken into account for the year-end cut off procedures (see note 2.18.3 below). Following these cut off entries, estimated eligible amounts have therefore been recorded as accrued charges, while the non-eligible parts remain open on the "eligibility to be checked" accounts. In order not to overestimate assets and liabilities, it has been decided to present the net amount to be paid under the current liabilities.

Member States

The primary amounts here related to EUR 4 660 million (2007: EUR 6 287 million) in unpaid cost claims for structural fund actions. Also included here is EUR 6 627 million due back to Member States following a rectifying budget made at the end of 2008 (2007: EUR 5 889 million) - this was paid to Member States in February 2009.

Suppliers and other

Included under this heading are amounts owed following grant and procurement activities, as well as amounts payable to public bodies and non-consolidated entities, (e.g. the EDF).

Eligibility to be checked

EUR millions

Type	Balance at 31.12.2008	Balance at 31.12.2007
DG EMPL	249	194
DG REGIO	161	229
DG MARE	36	21
DG AGRI	7	109
DG ENV	7	20
Others	75	60
Total	535	633

2.18.3 Accrued charges and deferred income

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
Accrued charges	77 260	80 937
Deferred income	50	47
Other	162	203
Total	77 472	81 187

The split of accrued charges is as follows:

Accrued Charges

EUR millions

	Balance at 31.12.2008	Balance at 31.12.2007
EAGF accrued charges:		
Expenses 16/10/2008 to 31/12/2008	30 415	28 642
Direct Aid	12 682	13 786
Sugar restructuring	3 787	3 108
Others	(13)	(101)
Total EAGF:	46 871	45 435
Structural Actions accrued charges:		
EAFRD	7 004	6 723
ERDF & innovative actions	10 687	15 244
Cohesion fund	2 810	1 593
ISPA	4	0
ESF	4 596	7 744
Total Structural Funds:	25 101	31 304
Other accrued charges:		
R&D	1 978	1 315
Other	3 310	2 883
Total Others:	5 288	4 198
Total accrued charges	77 260	80 937

NET ASSETS

2.19 RESERVES

	EUR millions	
	Balance at 31.12.2008	Balance at 31.12.2007
Fair value reserve	41	7
Other reserves:		
Guarantee Fund	1 276	1 118
Revaluation reserve	57	57
Borrowing and lending activities	1 528	1 525
Other	213	99
Total	3 074	2 799
Total	3 115	2 806

2.19.1 Fair value reserve

In accordance with the accounting rules, the adjustment to fair value of available-for-sale assets is accounted for through the fair value reserve.

2.19.2 Other reserves

Guarantee Fund

See also note 2.3.3 concerning the operation of the Guarantee Fund. This reserve reflects the 9% target amount of the outstanding amounts guaranteed by the Fund that is required to be kept as assets.

Revaluation reserve

The revaluation reserve comprises the revaluations of property, plant and equipment. The balance at the year-end of EUR 57 million relates to a revaluation of Commission land and buildings, which had already occurred before the transition to the new accounting rules.

Borrowing and lending activities reserve

These amounts comprise the reserves relating to the Communities' borrowing and lending activities. The main amount relates primarily to the ECSC in liquidation reserves, the largest of these being the reserve for the assets of the Research Fund for Coal and Steel. This reserve was created in the context of the winding-up of the ECSC, and totalled EUR 1 526 million at 31 December 2008.

2.20 AMOUNTS TO BE CALLED FROM MEMBER STATES

	<i>EUR millions</i>
	Amount
Amounts to be called from Member States at 31 December 2007	61 426
Return of 2007 budget surplus to Member States	1 529
Movement in Guarantee Fund reserve	158
Other reserve movements	108
ECSC in liquidation: allocation of 2007 result	4
Economic outturn (surplus) for the year	(12 686)
Total amounts to be called from Members States at 31 December 2008	50 539
Split between:	
Employee Benefits	37 556
Other amounts	12 983

This amount represents that part of the expenses already incurred by the Communities up to 31 December 2008 that must be funded by future budgets. Many expenses are recognised under accrual accounting rules in the year N although they may be actually paid in year N+1 and funded by using the budget of year N+1. The inclusion in the accounts of these liabilities coupled with the fact that the corresponding amounts are financed from future budgets, results in liabilities greatly exceeding assets at the year-end. The most significant amounts to be highlighted are the EAGF activities. The amount of payments due to the Member States for the period 16 October to 31 December 2008 was EUR 30.4 billion. The majority of the amounts to be called are in fact paid by the Member States in less than 12 months after the end of the financial year in question as part of the budget of the following year.

There was a significant decrease in the other amounts to be called from Members States compared to last year, EUR 13 billion compared to EUR 27.9 billion in 2007. The main reasons for this decrease are the EUR 5.7 billion decrease in accounts payable (see note 2.18 above), the EUR 4.7 billion increase in pre-financing (notes 2.5 & 2.9) and the EUR 5 billion increase in cash (note 2.11).

It is essentially only the employee benefits obligations of the Communities towards its staff which are paid out over a longer period, noting that the funding of the pension payments by the annual budgets is guaranteed by the Member States. For information purposes only, an estimate of the split of future employee benefit payments is given below:

	<i>EUR millions</i>
	Amount
Short-term: amounts to be paid in 2009	1 160
Long-term: amounts to be paid after 2009	36 396
Total employee benefits liability at 31.12.2008	37 556

It should also be noted that the above has no effect on the budget outturn – budget revenue should always equal or exceed budget expenditure and any excess of revenue is returned to Member States.

3. NOTES TO THE ECONOMIC OUTTURN ACCOUNT

3.1 OWN RESOURCE AND CONTRIBUTIONS REVENUE

EUR millions			
	Note	2008	2007
Own resource revenue:	3.1.1		
GNI resources		74 479	73 922
VAT resources		19 008	19 442
Traditional own resources:			
Agricultural duties		1 184	1 429
Custom duties		15 196	15 288
Sugar levies		702	(36)
Total traditional own resources		17 082	16 681
Budgetary adjustments	3.1.2	1 930	1 892
Contributions of third countries (incl. EFTA countries)		214	147
Total		112 713	112 084

Own resources revenue is the primary element of the European Communities' operating revenue. Thus the bulk of expenditure is financed by own resources as other revenue represents only a minor part of the total financing.

3.1.1 Own resource revenue

There are three categories of own resources: traditional own resources, the VAT-based resource and the GNI-based resource. Traditional own resources, in turn, comprise agricultural duties, sugar levies and customs duties. A correction mechanism in respect of budgetary imbalances (UK Rebate) is also part of the own resources system. Member States retain, by way of collection costs, 25% of traditional own resources, and the above amounts are shown net of this deduction.

VAT-based own resources derive from the application of a uniform rate, for all Member States, to the harmonised VAT base, a base which is capped at 50% of GNI for all Member States. The GNI-based resource is a variable resource intended to supply the revenue required, in any given year, to cover expenditure exceeding the amount collected from traditional own resources, VAT based resources and miscellaneous revenue. The revenue derives from the application of a uniform rate to the aggregate GNI of all the Member States.

The level of own resources between 2007 and 2008 is quite similar. The increase of EUR 524 million is mostly linked to the increase in sugar levies as a result of a change in the sugar legislation regarding the common organisation of the market.

3.1.2 Budgetary adjustments

The budgetary adjustments include the budget surplus from 2007 (EUR 1 529 million) which is indirectly refunded to Member States by deduction of the amounts of own resources they have to transfer to the Community in the following year – thus it is a revenue for 2008. According to Council Decision No. 2000/597 on the system of the European Communities' own resources, the United Kingdom is granted a correction in respect of budgetary imbalances. As this amount is financed by the other Member States there should be no net effect on the budgetary or economic outturn. However, an amount of EUR 400 million was registered under this heading being the differences in the Euro rates used for budgetary purposes (see Article 10 (3) of Regulation No 1150/2000) and the rates in force at the time when those Member States not part of the EMU actually made their payments.

3.2 OTHER OPERATING REVENUE

<i>EUR millions</i>			
	Note	2008	2007
Fines	3.2.1	3 171	3 339
Agricultural levies	3.2.2	2 299	2 634
Recovery of expenses:	3.2.3		
Direct centralised management		61	93
Indirect centralised management		4	10
Decentralised management		90	133
Shared management		1 349	577
Joint management		0	1
Total		1 504	814
Revenue from administrative operations:	3.2.4		
Staff		974	908
Property, plant and equipment related revenue		25	26
Other administrative revenue		149	181
Total		1 148	1 115
Miscellaneous operating revenue:	3.2.5		
Adjustments/provisions		71	23
Exchange gains		269	276
Other		1 269	879
Total		1 609	1 178
Total		9 731	9 080

3.2.1 Fines

These revenues relate to fines imposed by the Commission for infringement of competition rules. Receivables and related revenues are recognised when the Commission decision imposing a fine has been taken and it is officially notified to the addressee. Not included in the above are fines for anti-competitive practices notified by the European Commission: to a computer chip-

maker in May 2009 in the amount of EUR 1.06 billion and to two energy producers in July 2009 for a total amount of EUR 1.106 billion.

3.2.2 *Agricultural levies*

These amounts concern milk levies of EUR 338 million (2007: EUR 232 million) and sugar levies of EUR 1 961 million (2007: EUR 2 402 million). Milk levies are a market management tool aimed at penalising the milk producers who exceed their reference quantities. As it is not linked to prior payments by the Commission, it is in practice considered as revenue for a specific purpose. Sugar levies relate to the sugar restructuring fund, whereby the reform of the sugar sector has lowered the internal price of sugar in order to reduce the gap between the EU price and the international price. To encourage the less competitive sugar producers to leave the market, a self-financing restructuring fund was created, financed by revenue stemming from a temporary tax levied on sugar producers, which is treated as assigned revenue. The scheme is due to last for four years.

3.2.3 *Recovery of expenses*

This heading represents the recovery orders issued by the Commission and the deduction from subsequent payments recorded in the Commission's accounting system, to recover expenditures previously paid out from the general budget, based on controls, closed audits or eligibility analysis, together with recovery orders issued by Member States to beneficiaries of EAGF expenditure. It also includes the variation of accrued income estimations from the previous year-end to the current. It does not, however, show the full extent of the recovery of EC expenditure, particularly for the significant spending areas of Structural Actions where specific mechanisms are in place to ensure the return of ineligible monies, most of which do not involve the issuance of a recovery order. Recovery of pre-financing amounts are also not included as revenue, in accordance with the EC accounting rules. For further information on recovery of undue payments see note 6.

Recovery of expenses: Shared management

The total of EUR 1 349 million included under this sub-heading is made up of EUR 1 000 million concerning the European Agricultural Guarantee Fund (EAGF) and EUR 349 million for Structural Actions.

(a) Agriculture, EAGF

In the framework of agriculture, amounts accounted for as revenue of the year under this heading are EUR 1 000 million, made up as follows:

- conformity corrections decided during the year, EUR 859 million;
- fraud and irregularities EUR 141 million: reimbursements declared by Member States and recovered during the year, EUR 360 million, less the decrease in the outstanding amounts declared by Member States to be recovered at year-end concerning fraud and irregularities,

EUR 219 million (EUR 684 million at year-end 2008 compared to EUR 902 million at year-end 2007) – see also note **2.10.2.2**.

At 31 December 2008 the amount of EAGF expenditure subject to future corrections following audits which were not yet finalised totals EUR 1.7 billion. This amount is disclosed as a contingent asset in the off-balance sheet (see note **5.3**).

(b) Structural Actions

The recovery of expenditure under the Structural actions included under this heading amounted to EUR 349 million. Equivalent amounts for 2007 were EUR 77 million.

This sub-heading includes recovery orders issued by the Commission to recover undue expenditure made in previous years, EUR 267 million and the variation (increase) of the accrued income at year-end EUR 82 million. Recovery orders are issued only in the following cases:

- formal financial correction decisions by the Commission following the detection of irregular expenditure in the amounts claimed by Member States;
- adjustments at closure of a programme leading to a reduction in the EU contribution where a Member State has not declared sufficient eligible expenditure to justify the total pre-financing and interim payments already made; such operations may be without a formal Commission decision if accepted by the Member State;
- repayment of amounts recovered after closure following the conclusion of legal proceedings which were pending at the time of closure.

Recovery orders issued in 2008 for the recovery of expenses, totalling EUR 267 million, can be split as follows: EUR 200 million for financial corrections decided in 2008, EUR 34 million for financial corrections decided before 2008, EUR 31 million for recovering of amounts wrongly paid due to error or irregularity and EUR 2 million for other recovery orders. Other recovery orders issued under Structural Actions concern the recovery of pre-financing. These amounts are not shown as revenue, but credited to the pre-financing heading on the balance sheet.

An amount of EUR 2.6 billion relating to potential financial corrections in the process of being decided is disclosed as a contingent asset (see note **5.3**).

Recovery of expenses: Other management types

This sub-heading amounts to EUR 155 million and includes recovery orders issued by the Commission to recover payments made in previous years for EUR 48 million of undue payments, other recovery orders for EUR 135 million, the variation of the accrued income at the year-end (EUR -22 million) and intercompany eliminations (EUR -6 million). Other recoveries under the other management types concern the recovery of pre-financing and amount to EUR 24 million. These amounts are not shown as revenue, but credited to the pre-financing heading on the balance sheet.

3.2.4 Revenue from administrative operations

This revenue arises mainly from deductions from staff salaries and is made up primarily of two amounts – pension contributions and taxes on income.

3.2.5 Miscellaneous operating revenue

An amount of EUR 321 million (2007: EUR 296 million) relates to amounts received from accession countries. One of the main reasons for the increase in miscellaneous operating revenues compared with last year is that this year includes a revenue of EUR 109 million relating to the decrease in the value reduction for EAGF receivables (2007: EUR 11 million). Additionally this year also includes an amount of EUR 241 million (2007: EUR 33 million) relating to pre-financing amounts included on the balance sheet for the first time, the counter-part of which appears under this heading – the largest amount, EUR 231 million, relates to money paid out under the Schengen Facility.

Exchange gains, except on financial activities dealt with in note 3.5 below, are also included under this heading. These arise from the everyday activities and related transactions made in currencies other than the Euro, as well as the year-end revaluation required to prepare the accounts. They contain both realised and unrealised gains.

3.3 ADMINISTRATIVE EXPENSES

	EUR millions	
	2008	2007
Staff expenses	4 563	4 289
Intangible asset and Property, Plant & Equipment related expenses	330	343
Other administrative expenses	2 827	2 488
Total	7 720	7 120

These are administrative expenses incurred as part of the activities of the Communities and include staff costs and costs relating to intangible assets and property, plant and equipment (such as depreciation, maintenance costs, etc.).

3.4 OPERATING EXPENSES

EUR millions			
	Note	2008	2007
Primary operating expenses:	3.4.1		
Direct centralised management		7 998	9 504
Indirect centralised management		3 077	1 185
Decentralised management		1 278	1 978
Shared management		81 839	89 778
Joint management		<u>1 188</u>	<u>949</u>
Total		95 380	103 394
Other operating expenses:	3.4.2		
Adjustments/provisions		278	260
Exchange losses		773	399
Other		<u>783</u>	<u>629</u>
Total		1 834	1 288
Total		97 214	104 682

3.4.1 Primary operating expenses

The European Communities' operating expenditure covers the various headings of the financial perspective and takes different forms, depending on how the money is paid out and managed. The majority of the expenditure, 86%, falls under the heading "Shared Management" involving the delegation of tasks to Member States, covering such areas as EAGF spending and actions financed through the different Structural Actions (the regional development fund, the social fund, the agricultural fund for rural development, the cohesion fund and the fisheries fund).

Much of the decrease in operating expenses in 2008 comes from actions financed through the different Structural Actions under shared management. Those actions are programmed and launched by periods of either 5 or 6 years. At 31 December 2008, there are two programming periods for which actions are running in parallel, programs for the period 2000-2006 and programs for 2007-2013. The decrease of EUR 7.9 billion for Structural Actions can be attributed to the fact that since 2006 some projects being funded were in the process of winding down (programmes related to the period 2000-2006), while others (programmes related to the period 2007-2013) are less advanced than foreseen in 2007. For those new projects, a second pre-financing instalment was paid in 2008 as explained in note 2.5, but there was a delay in implementation of programmes by the Member States, in part due to the requirement of the approval by the Commission of the Member States' Management and Control Systems.

The increase of EUR 1.9 billion in indirect centralised management expenditure is partially offset by a decrease of EUR 1.3 billion in direct centralised management expenditure. In fact, this year there has been a reclassification of projects, mainly belonging to executive agencies, from direct to indirect centralised management expenditure.

3.4.2 Other operating expenses

Exchange losses, except on financial activities dealt with in note 3.6 below, occur on the everyday activities and related transactions made in currencies other than the Euro, as well as the year-end revaluation required to prepare the accounts – they are both realised and unrealised.

Looking at the net position, there was a significant net exchange loss for the year. The biggest impact comes from the Commission. Here, the amount of net unrealised exchange losses this year is the result of the year-end revaluation of outstanding balances in foreign currencies. Most of the loss (EUR 242 million out of EUR 305 million) is related to GBP and SEK. These two currencies both depreciated by more than 20% versus the EUR in the last four months of 2008. Significant balances in foreign currencies, including GBP and SEK, are held at year-end by the Commission on its own resources bank accounts to cover the Commission's cash requirements arising out of the implementation of the budget.

Significant net realised exchange losses were also incurred by the Commission, most of which (approximately EUR 150 million out of EUR 192 million) arise from accounting transactions related to the own resource amounts paid in national currencies other than EUR by non Euro-zone Member States. The losses result from the difference between the accounting exchange rate at which these amounts are accounted for by the Commission when they are received, and the market exchange rate at which they are converted to EUR before being used to cover the Commission's payments. As stated above, in the course of the last four months of 2008 several European currencies, including in particular GBP, PLN, SEK, have significantly, and steadily, depreciated against the EUR. As a result of this, the market exchange rates applied in this period for the conversion of Commission's own resources in these currencies were regularly lower than the accounting rates at which they were accounted for. The remaining part of the difference is related to other accounting transactions including payments executed by the Commission in other currencies.

The "other" sub-heading includes mainly pre-financing corrections and amounts written down/lost on realisation concerning Commission debtors. Also included is an amount of EUR 144 million concerning the implementation of the CARDS programme in Kosovo, Serbia and Montenegro, and an amount EUR 143 million in relation to two other programmes managed by a consolidated agency.

3.5 FINANCIAL REVENUE

	EUR millions	
	2008	2007
Dividend income (from Venture Capital Funds)	22	6
Interest income:		
On pre-financing	50	33
On late payments	26	81
On swaps	13	19
On available for sale assets	102	97
On loans	105	106
On cash & cash equivalents	349	263
Other	<u>3</u>	<u>12</u>
Total	648	611
Other financial income:		
Realised gain on sale of financial assets	4	6
Reversal of impairment losses on financial assets	0	1
Other	<u>11</u>	<u>23</u>
Total	15	30
Present value adjustments	3	24
Exchange gains	10	3
Total	698	674

3.6 FINANCIAL EXPENSES

	EUR millions	
	2008	2007
Interest expenses:		
Leasing	91	101
On swaps	10	17
On borrowings	90	91
Other	<u>9</u>	<u>5</u>
Total	200	214
Other financial expenses:		
Adjustments to financial provisions	12	11
Financial charges on budgetary instruments	50	57
Realised loss on sale of financial assets	8	9
Impairment losses on financial assets	11	15
Other	<u>56</u>	<u>35</u>
Total	137	127
Present value adjustments	118	7
Exchange losses	12	6
Total	467	354

In addition to losses on the sale and the write down in the value of financial assets, other financial expenses also include the adjustments made to financial provisions and the management fees paid to the fiduciaries.

3.7 SHARE OF NET SURPLUS/(DEFICIT) OF ASSOCIATES & JOINT VENTURES

In accordance with the equity method of accounting, the Communities include in its economic outturn account its share of the net surplus of its associate, EIF, and its joint ventures (see also notes 2.3.1 & 2.3.2).

3.8 SEGMENT REPORTING

The segment report gives the split of the operating revenues and expenses by policy area, based on the Activity Based Budget structure, within the Commission. These policy areas are grouped for financial statement presentation purposes under three larger headings – Activities within the European Union, Activities outside the European Union and Services & other.

“Activities within the European Union” is the largest of these headings as it covers the many policy areas within the European Union. “Activities outside the European Union” concerns the policies operated outside the Union, such as trade and aid. “Services & other” are the internal and horizontal activities necessary for the functioning of the Communities’ Institutions and bodies.

The consolidated agencies are integrated into the different policy areas. Other Institutions, aside from the Commission are grouped in a specific policy area. The various policy areas represent gross figures before consolidation eliminations and the consolidation eliminations are done globally in one column.

Note that own resources and contributions are not split amongst the various activities as these are calculated, collected and managed by central Commission services. They are shown here so as to allow for comparison of the net result with the economic outturn account.

SEGMENT REPORTING – SUMMARY

	Activities within the EU	Activities outside the EU	Services & Other
Operating revenue:			
Fines	3 171	0	0
Agricultural levies	2 299	0	0
Recovery of expenses	1 384	120	6
Revenue from admin operations	69	35	832
Other operating revenue	1 756	266	586
TOTAL OPERATING REVENUE	8 679	421	1 424
Administrative expenses:			
Staff expenses	(1 610)	(714)	(1 018)
Intangible assets and PPE related expenses	(58)	(18)	(115)
Other administrative expenses	(645)	(279)	(848)
	(2 313)	(1 011)	(1 981)
Operating expenses:			
Direct centralised management	(4 807)	(3 604)	(226)
Indirect centralised management	(3 094)	(195)	(3)
Decentralised management	(21)	(1 257)	0
Shared management	(81 748)	(17)	(74)
Joint management	(115)	(1 074)	0
Other operating expenses	(879)	(182)	(820)
	(90 664)	(6 329)	(1 123)
TOTAL OPERATING EXPENSES	(92 977)	(7 340)	(3 104)
NET OPERATING EXPENSES	(84 298)	(6 919)	(1 680)
Own resource and contributions revenue			
Surplus from operating activities			
Net financial income			
Movement in employee benefits liability			
Share of associates/joint venture results			
Economic outturn for the year			

EUR millions

ECSC in Liquidation	Other Institutions	Consolidation eliminations	Total
0	0	0	3 171
0	0	0	2 299
0	0	(6)	1 504
0	352	(140)	1 148
2	2	(1 003)	1 609
2	354	(1 149)	9 731
0	(1 229)	8	(4 563)
0	(139)	0	(330)
<u>0</u>	<u>(1 239)</u>	<u>184</u>	<u>(2 827)</u>
0	(2 607)	192	(7 720)
0	0	639	(7 998)
0	0	215	(3 077)
0	0	0	(1 278)
0	0	0	(81 839)
0	0	1	(1 188)
<u>(54)</u>	<u>(1)</u>	<u>102</u>	<u>(1 834)</u>
(54)	(1)	957	(97 214)
(54)	(2 608)	1 149	(104 934)
(52)	(2 254)	0	(95 203)
			112 713
			17 510
			231
			(5 009)
			(46)
			12 686

SEGMENT REPORTING – ACTIVITIES WITHIN THE EU

	Economic & Financial affairs	Enterprise & Industry	Competition
Operating revenue:			
Fines	0	0	3 168
Agricultural levies	0	0	0
Recovery of expenses	1	1	0
Revenue from administrative operations	0	11	0
Other operating revenue	0	218	3
TOTAL OPERATING REVENUE	1	230	3 171
Administrative expenses:	(51)	(225)	(68)
Staff expenses	(45)	(149)	(62)
Intangible assets and PPE related expenses	0	(11)	0
Other administrative expenses	(6)	(65)	(6)
Operating expenses:	(52)	(336)	(54)
Centralised direct management	(52)	(250)	0
Centralised indirect management	0	0	0
Decentralised management	0	0	0
Shared management	0	0	0
Joint management	0	0	0
Other operating expenses	0	(86)	(54)
TOTAL OPERATING EXPENSES	(103)	(561)	(122)
NET OPERATING EXPENSES	(102)	(331)	3 049
	Joint Research Centre	Fisheries	Internal Market
Operating revenue:			
Fines	0	0	3
Agricultural levies	0	0	0
Recovery of expenses	0	(41)	0
Revenue from administrative operations	38	0	0
Other operating revenue	52	8	198
TOTAL OPERATING REVENUE	90	(33)	201
Administrative expenses:	(334)	(39)	(146)
Staff expenses	(222)	(32)	(100)
Intangible assets and PPE related expenses	(29)	0	(4)
Other administrative expenses	(83)	(7)	(42)
Operating expenses:	(84)	(883)	(41)
Centralised direct management	(81)	(235)	(5)
Centralised indirect management	0	0	0
Decentralised management	0	0	0
Shared management	0	(644)	0
Joint management	0	0	0
Other operating expenses	(3)	(4)	(36)
TOTAL OPERATING EXPENSES	(418)	(922)	(187)
NET OPERATING EXPENSES	(328)	(955)	14

EUR millions

Employment	Agriculture	Transport & Energy	Environment	Research	Information Society
0	0	0	0	0	0
0	2 299	0	0	0	0
58	1 005	7	1	3	10
0	0	12	0	1	7
32	145	297	39	370	6
90	3 449	316	40	374	23
(99)	(108)	(218)	(93)	(265)	(131)
(74)	(89)	(161)	(70)	(151)	(94)
(1)	0	(4)	(1)	0	0
(24)	(19)	(53)	(22)	(114)	(37)
(8 175)	(54 290)	(1 326)	(186)	(2 672)	(1 377)
(186)	(46)	819	(162)	(2 630)	(1 266)
0	0	(1 818)	(8)	0	(92)
0	(3)	(11)	0	0	0
(7 976)	(54 049)	0	0	0	0
0	0	(100)	0	0	0
(13)	(192)	(216)	(16)	(42)	(19)
(8 274)	(54 398)	(1 544)	(279)	(2 937)	(1 508)
(8 184)	(50 949)	(1 228)	(239)	(2 563)	(1 485)
Regional Policy	Taxation & Customs	Education & Culture	Health & Consumer protection	Justice, Freedom & Security	Total Activities within the EU
0	0	0	0	0	3 171
0	0	0	0	0	2 299
329	0	4	5	1	1 384
0	0	0	0	0	69
(1)	1	151	135	102	1 756
328	1	155	140	103	8 679
(66)	(46)	(160)	(165)	(99)	(2 313)
(55)	(38)	(85)	(110)	(73)	(1 610)
0	(1)	(1)	(4)	(2)	(58)
(11)	(7)	(74)	(51)	(24)	(645)
(19 058)	(56)	(1 284)	(509)	(281)	(90 664)
(29)	(56)	(142)	(358)	(128)	(4 807)
(21)	0	(1 126)	(30)	1	(3 094)
(7)	0	0	0	0	(21)
(18 986)	0	0	0	(93)	(81 748)
(15)	0	0	0	0	(115)
0	0	(16)	(121)	(61)	(879)
(19 124)	(102)	(1 444)	(674)	(380)	(92 977)
(18 796)	(101)	(1 289)	(534)	(277)	(84 298)

SEGMENT REPORTING – ACTIVITIES OUTSIDE THE EU

	External Relations	Trade
Operating revenue:		
Recovery of expenses	19	0
Revenue from administrative operations	35	0
Other operating revenue	67	0
TOTAL OPERATING REVENUE	121	0
Administrative expenses:	(740)	(51)
Staff expenses	(477)	(45)
Intangible assets and PPE related expenses	(17)	0
Other administrative expenses	(246)	(6)
Operating expenses:	(2 988)	(10)
Direct centralised management	(2 163)	(7)
Indirect centralised management	(42)	0
Decentralised management	(352)	0
Shared management	0	0
Joint management	(413)	(3)
Other operating expenses	(18)	0
TOTAL OPERATING EXPENSES	(3 728)	(61)
NET OPERATING EXPENSES	(3 607)	(61)

SEGMENT REPORTING – SERVICES & OTHER

	Press & Communication	Anti-Fraud Office	Co-ordination
Operating revenue:			
Recovery of expenses	0	0	0
Revenue from administrative operations	1	5	0
Other operating revenue	(2)	(1)	8
TOTAL OPERATING REVENUE	(1)	4	8
Administrative expenses:	(94)	(49)	(151)
Staff expenses	(59)	(34)	(127)
Intangible assets and PPE related expenses	(2)	0	0
Other administrative expenses	(33)	(15)	(24)
Operating expenses:	(80)	(15)	(8)
Direct centralised management	(77)	(15)	(1)
Indirect centralised management	(3)	0	0
Shared management	0	0	0
Other operating expenses	0	0	(7)
TOTAL OPERATING EXPENSES	(174)	(64)	(159)
NET OPERATING EXPENSES	(175)	(60)	(151)

EUR millions

Development	Enlargement	Humanitarian Aid	Total Activities outside the EU
4	92	5	120
0	0	0	35
(1)	199	1	266
3	291	6	421
(135)	(62)	(23)	(1 011)
(127)	(50)	(15)	(714)
0	(1)	0	(18)
(8)	(11)	(8)	(279)
(876)	(1 586)	(869)	(6 329)
(530)	(503)	(401)	(3 604)
3	(156)	0	(195)
(154)	(751)	0	(1 257)
(17)	0	0	(17)
(170)	(21)	(467)	(1 074)
(8)	(155)	(1)	(182)
(1 011)	(1 648)	(892)	(7 340)
(1 008)	(1 357)	(886)	(6 919)

Personnel & Administration	Eurostat	Budget	Audit	Languages	Other	Total Services & Other
3	3	0	0	0	0	6
682	0	46	0	98	0	832
38	0	235	0	42	266	586
723	3	281	0	140	266	1 424
(1 200)	(66)	(50)	(9)	(390)	28	(1 981)
(436)	(60)	(38)	(8)	(284)	28	(1 018)
(113)	0	0	0	0	0	(115)
(651)	(6)	(12)	(1)	(106)	0	(848)
(45)	(22)	(217)	0	(1)	(735)	(1 123)
(29)	(21)	(104)	0	(1)	22	(226)
0	0	0	0	0	0	(3)
0	0	(74)	0	0	0	(74)
(16)	(1)	(39)	0	0	(757)	(820)
(1 245)	(88)	(267)	(9)	(391)	(707)	(3 104)
(522)	(85)	14	(9)	(251)	(441)	(1 680)

4. NOTES TO THE CASHFLOW TABLE

4.1 PURPOSE AND PREPARATION OF THE CASHFLOW TABLE

Cash flow information is used to provide a basis for assessing the ability of the Communities to generate cash and cash equivalents, and its needs to utilise those cash flows.

The cashflow table is prepared using the indirect method. This means that the net surplus or deficit for the financial year is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing cash flows.

Cash flows arising from transactions in a foreign currency are recorded in the European Communities' reporting currency (Euro), by applying to the foreign currency amount the exchange rate between the euro and the foreign currency at the date of the cash flow.

The cashflow table shown above reports cash flows during the period classified by operating and investing activities (the Communities do not have financing activities).

4.2 OPERATING ACTIVITIES

Operating activities are the activities of the Communities that are not investing activities. These are the majority of the activities performed. Loans granted to beneficiaries (and the related borrowings, when applicable) are not considered as investing (or financing) activities as they are part of the general objectives and thus daily operations of the Communities. Operating activities also include investments such as EIF, EBRD and venture capital funds. Indeed, the objective of these activities is to participate in the achievement of policy targeted outcomes.

4.3 INVESTING ACTIVITIES

Investing activities are the acquisition and disposal of intangible assets and property, plant and equipment and of other investments which are not included in cash equivalents. Investing activities do not include loans granted to beneficiaries. The objective is to show the real investments made by the Communities.

It should be noted that EUR 5 753 million of cash and cash equivalent balances held by the Communities are not available for use by the Communities. This is the cash received as payment of fines levied, where the other party is appealing the imposition of the fine. These amounts are clearly disclosed as "restricted cash" under note 2.11 above.

5. OFF-BALANCE SHEET DISCLOSURES

CONTINGENT ASSETS

EUR millions			
	Note	31.12.2008	31.12.2007
Guarantees received	5.1	260	237
Contingent assets relating to cases of fraud & irregularities	5.2	2 010	1 701
Financial Corrections in progress	5.3	4 390	4 436
Other contingent assets	5.4	43	19
Total Contingent Assets		6 703	6 393

CONTINGENT LIABILITIES & COMMITMENTS FOR FUTURE FUNDING

EUR millions			
Contingent Liabilities	Note	31.12.2008	31.12.2007
Guarantees given	5.5	17 510	15 863
Fines – appeals to the Court of Justice	5.6	10 198	8 682
EAGF – court judgements pending	5.7	1 609	1 095
Amounts relating to legal cases and other disputes	5.8	281	2 043
Other contingent liabilities	5.9	18	19
Total Contingent Liabilities		29 616	27 702

Commitments for future funding	Note	31.12.2008	31.12.2007
Undrawn commitments	5.10	4 885	239
Commitments against appropriations not yet consumed	5.11	120 023	95 992
Legal Commitments concerning multi-annual actions	5.12	333 659	386 209
Contributions to related organisations	5.13	1 072	996
Operating lease commitments	5.14	2 349	2 003
Contractual commitments	5.15	983	806
Total Commitments for future funding		462 971	486 245

All contingent liabilities and commitments would be financed, should they fall due, by the Communities' budget in the years to come. The Communities' budget is financed by the Member States.

CONTINGENT ASSETS

5.1 GUARANTEES RECEIVED

	EUR millions	
	31.12.2008	31.12.2007
Performance guarantees	239	217
Other	21	20
Total	260	237

Performance guarantees are sometimes requested to ensure that beneficiaries of Communities funding meet the obligations of their contracts with the Communities.

It should be noted that third-party guarantees have also been received by the Commission relating to loans given (EUR 486 million, see note **2.4.2**), pre-financing payments made (EUR 968 million see note **2.9**) and fines issued (EUR 2 403 million, see note **2.10.2.1**). These guarantees, however, differ from those disclosed above as they relate to assets already included on the balance sheet.

5.2 FRAUD AND IRREGULARITIES

The table below presents the potential amount of recoveries which may be made by Member States following the detection of irregular claims on structural funds. It is based on the formal reports submitted by the Member States in accordance with Commission Regulation No 1681/94, with amounts broken down by Member State.

Contingent assets: fraud & irregularities cases

Member State	<i>EUR millions</i>	
	31.12.2008	31.12.2007
Austria	13	15
Belgium	16	16
Czech Republic	13	1
Denmark	10	10
Estonia	2	1
Finland	3	3
France	12	12
Germany	581	592
Greece	62	69
Hungary	5	1
Ireland	1	1
Italy	441	434
Latvia	4	1
Lithuania	2	0
Malta	1	0
Netherlands	14	12
Poland	13	11
Portugal	114	83
Slovakia	9	1
Slovenia	1	0
Spain	279	249
Sweden	2	2
United Kingdom	257	178
Total	1 855	1 692

The figures given in this table represent a theoretical maximum rather than the amounts that will actually be made available to the Communities' budget, for the following reasons:

- The Member States do not always report the results of their recovery operations.
- Although Member States must inform the Commission of the likelihood of recovery, it is impossible to determine exactly what proportion of the amounts still to be recovered will actually be recovered. National laws sometimes provide for a 30-year limitation period, which may well make the national authorities delay formally writing off the debt even if the chances of recovery are only theoretical. For structural operations, Member States must now send the Commission once a year a statement of the amounts awaiting recovery (Article 8 of Regulation No 438/2001) to give a better picture of the actual situation.
- Even if the Member State concerned launches recovery proceedings in time, a positive outcome is not guaranteed. This is particularly true where recovery orders are contested in the courts.
- Individual projects are co-financed as part of multi-annual programmes. As long as a multi-annual programme has not been closed, it is impossible to put an exact figure on the amounts to be recovered because the funding used for irregular expenditure may, in certain circum-

stances, be reallocated to other, legitimate projects and because subsequent instalments, in particular final payments, can sometimes be used as a means of adjusting for earlier irregular expenditure. The figures in these tables are provisional figures based on the reports received and processed up to the end of February 2008. These figures may be changed in line with further reports arriving late.

The prospects of recovery in individual cases cannot be assessed with sufficient accuracy from the information forwarded by the Member States.

The main movements since 2007 concern increases relating to: European Social Fund cases (United Kingdom EUR 18 million and Portugal EUR 4 million); European Regional and Development Fund cases (UK EUR 58 million, Czech Republic EUR 12 million, Spain EUR 20 million and Portugal EUR 6 million); European Agriculture Guarantee Guidance Fund (Portugal EUR 21 million); and Cohesion Fund cases (Spain EUR 8 million).

Also included under this heading is EUR 153 million in relation to EAGF. Member States communicated to the Commission the amounts that have been recorded in their “debtors’ ledger”, and also amounts that still were at a preliminary stage of checking. It is these preliminary amounts that are disclosed under this heading. Previously, this information had not been requested from Member States.

5.3 FINANCIAL CORRECTIONS IN PROGRESS

For agriculture and rural development, the agricultural expenditure declared by the Member States is provisional until the annual accounts of the paying agencies for financial year N are cleared. Normally, this is done by 30 April N+1. The financial clearance is decided by the Commission on the basis of the certification work by the certification bodies and a review by the Commission. Once the Commission accepts the accounts of the accredited paying agencies, the corresponding expenditure becomes definitive. The Commission can also make financial corrections by means of so-called conformity decisions but these can only affect expenditure which is incurred in the 24 months before the Commission notifies the Member State concerned in writing of its inspection findings. Thus an amount of EUR 1.7 billion is included here as a contingent asset, being an estimated amount to be received under future conformity decisions for audits covering certain expenditure declared over the period 2001-2008 (see note 6.4.1.1). As the amounts are not yet definitive, they are not recognised on the balance sheet.

For cohesion policy, an amount of EUR 2.6 billion has also been included under this heading as a contingent asset in relation to potential financial corrections in the process of being decided (see note 6.4.1.2). The amount is based on audit findings of the Commission and those of the European Court of Auditors, all of which are being followed up by the relevant DGs. This is a best estimate, taking into account the state of play of the follow up of the audits and the issuance of final position letters (or equivalent) at 31 December 2008. This amount is subject to change following the procedure for suspensions and financial corrections, under which Member States are given the opportunity to present, in a hearing, further evidence to support their claims.

See note 6 for further details on the recovery of expenses.

5.4 OTHER CONTINGENT ASSETS

This heading includes other smaller contingent amounts not classifiable under the above headings.

CONTINGENT LIABILITIES

5.5 GUARANTEES GIVEN

5.5.1 On loans granted by the European Investment Bank (EIB) from its own resources

EUR millions

	Risk Sharing 31.12.2008	Non-risk Sharing 31.12.2008		Outstanding 31.12.2008 Total	Outstanding 31.12.2007
		Public authority	Private company		
65% guarantee	2 333	8 642	1 454	12 429	10 138
70% guarantee	145	2 604	159	2 908	3 225
75% guarantee		941	108	1 049	1 245
100% guarantee		770	238	1 008	1 179
Total	2 478	12 957	1 959	17 394	15 787

The Communities' Budget guarantees loans signed and granted by the EIB from its own resources to third countries at 31 December 2008 (including loans granted to Member States before accession). However, the Communities' guarantee is limited to a percentage of the ceiling of the credit lines authorised: 65%, 70%, 75% or 100%. Where the ceiling is not reached, the Communities' guarantee covers the full amount. At 31 December 2008 the amount outstanding totalled EUR 17 394 million and this, therefore, is the maximum exposure faced by the Communities.

For loans covered by the Communities' budget guarantee, the EIB also obtains guarantees from third parties (States, public or private financial institutions); in these cases the Commission is a secondary guarantor. The Communities' budget guarantee covers only the political risk of guarantees provided under the title of "risk-sharing". The other risks are covered by the EIB should the primary guarantor not honour the undertakings given. For guarantees provided under the title of "non-risk sharing", all the risks are covered by the Communities' budget should the primary guarantor not honour its undertakings given. If the primary guarantor is a public authority these risks are confined as a rule to the political risk, but when the guarantees are provided by an institution or a private company, the Communities' budget might also have to cover the commercial risk.

5.5.2 Other guarantees given

EUR millions

	31.12.2008	31.12.2007
Risk Sharing Finance Facility (RSFF)	48	34
MEDA: Moroccan guarantees	66	41
Loan Guarantee Instrument for Ten-T Projects (LGTT)	1	0
Other	1	1
Total	116	76

Under Risk Sharing Finance Facility (RSFF), the Commission's contribution is used to provision financial risk for loans and guarantees given by the EIB to eligible research projects. In total a Commission budget of up to EUR 1 billion is foreseen for the period 2007 to 2013, of which up to EUR 800 million are from the "Cooperation" and up to EUR 200 million from the "Capacities" specific programmes. The EIB has committed itself to provide the same amount. An amount of EUR 48 million has been blocked by the Commission as a "Capital Allocation". This Capital Allocation covers unexpected losses on the loans and guarantees given by the EIB within the framework of the RSFF. It is the maximum loss the Commission might suffer in case of defaults on loans or guarantees given. It is the ceiling of the guarantee given by the Commission with respect to the RSFF and thus considered as a contingent liability by the EC.

As part of the MEDA programme, the Commission created a guarantee mechanism through a specific Fund, which will benefit two Moroccan organisations, namely the Caisse Centrale de Garantie and the Fonds Dar Ad-Damane. As at 31 December 2008 the total volume of credit facilities amounts to MAD 1 659 million, of which MAD 743 million (EUR 66 million) falls under the Commission guarantee.

The Loan Guarantee Instrument for Ten-T Projects (LGTT) (2007-2013) aims to issue guarantees to mitigate revenue risk in the early years of TEN-Transport projects. Specifically the guarantee would fully cover stand-by credit lines, which would only be drawn upon in cases where project cash flows are insufficient to service senior debt. The instrument will be a joint financial product of the Commission and the EIB and EUR 500 million from the EU budget will be allocated. The EIB will allocate another EUR 500 million so in total the amount available will be EUR 1 billion. The amount included here, EUR 1 million, represents the contribution to the provisioning of unexpected losses in relation to the LGTT operations.

5.6 FINES

These amounts concern fines imposed by the Commission for infringement of competition rules that have been provisionally paid and where either an appeal has been lodged or where it is unknown if an appeal will be made. The contingent liability will be maintained until a decision by the Court of Justice on the case is final. Interest earned on provisional payments (EUR 434 million) is included in the economic result for the year and also as a contingent liability to reflect the uncertainty of the Commission's title to these amounts.

5.7 EAGF – COURT JUDGEMENTS PENDING

These are contingent liabilities towards the Member States connected with the EAGF conformity decisions, pending judgement of the Court of Justice. The determination of the final amount of the liability and the year in which the effect of successful appeals will be charged to the budget will depend on the length of the procedure before the Court. An estimate of the probable amounts to be paid (EUR 364 million) has been included as a long-term provision on the balance sheet – see note 2.13.

5.8 AMOUNTS RELATED TO LEGAL CASES AND OTHER DISPUTES

This heading relates to actions for damages currently being brought against the Communities, other legal disputes and the estimated legal costs.

The large decrease from 2007 relates to two large actions for damages brought against the Commission where contingent liabilities were included on the balance sheet at 31 December 2007 and totalled EUR 2 014 million. For the first case, the action was dismissed in September 2008 and so the related contingent liability of EUR 350 million is no longer disclosed. For the second action the Court of First Instance (CFI) issued a judgement in July 2007 condemning the Commission to pay damages. However, the Commission appealed this judgment of the CFI and in July 2009 the Court of Justice found in favour of the Commission on almost all counts. The Commission must still pay compensation to cover certain costs incurred by the other party, but this amount is not yet finalised and will be immaterial in relation to the original claim of EUR 1 664 million and the accounts as a whole. Therefore, this contingent liability is no longer disclosed.

Other amounts are related to disputes involving suppliers, contractors and former staff. It should be noted that in an action for damages under Article 288 EC the applicant must demonstrate a sufficiently serious breach by the institution of a rule of law intended to confer rights on individuals, real harm suffered by the applicant, and a direct causal link between the unlawful act and the harm.

5.9 OTHER CONTINGENT LIABILITIES

The main amount included under this heading is the possible liability, estimated at EUR 11 million, concerning certain disease eradication costs that may have to be borne by the Commission's budget.

COMMITMENTS FOR FUTURE FUNDING

5.10 UNDRAWN COMMITMENTS

These are lending and equity investment agreements entered into by the Commission (not covered by the RAL) but not yet drawn down by the other party before the year-end. The significant increase from 2007 is due to a Balance of Payments loan agreement signed with Hungary in December 2008 (EUR 4.5 billion) but the amounts were not disbursed before year-end.

5.11 COMMITMENTS AGAINST APPROPRIATIONS NOT YET CONSUMED

The budgetary RAL (“Reste à Liquider”) is an amount representing the open commitments for which payments and/or de-commitments have not yet been made. This is the normal consequence of the existence of multi-annual programmes. At 31 December 2008 the budgetary RAL totalled EUR 155 034 million. The amount disclosed as a future commitment to be funded is this budgetary RAL less related amounts that have been included as expenses in the 2008 Economic Outturn Account giving a total of EUR 120 023 million.

5.12 LEGAL COMMITMENTS CONCERNING MULTI-ANNUAL ACTIONS

	EUR millions	
	31.12.2008	31.12.2007
Structural Operations	332 995	385 722
Protocol with Mediterranean countries	263	262
Fisheries agreements	401	225
Total	333 659	386 209

These commitments originated because the Commission decided to enter into long-term legal commitments in respect of amounts that were not yet covered by commitment appropriations in the budget. Not all multi-annual programmes contain commitments requiring inclusion under this heading since expenditure in future years is conditional on the annual decisions by the budgetary authority or changes in the rules concerned.

5.12.1 Structural Operations

The table below shows a comparison between the legal commitments for which budget commitments have not yet been made and the maximum commitments in relation to the amounts foreseen in the financial framework (perspective) 2007-2013:

EUR millions

	Financial perspective commitments amounts 2007-2013 (A)	Legal commitments concluded (B)	Budget commitments 2007-2008 (C)	Legal commitments less budget commitments (=B-C)	Maximum commitment (=A-C)
Cohesion policy funds	346 543	346 087	92 012	254 075	254 531
Natural Resources	95 288	95 288	25 184	70 104	70 104
Instrument for Pre-Accession Assistance	11 088	4 055	2 728	1 327	8 360
Total	452 919	445 430	119 924	325 506	332 995

Structural Operations represent aid planned for the period 2007-2013. The format and objectives of the Financial Framework period that started in 2007 are different to those of the prior period.

5.12.2 Protocols with Mediterranean countries

These commitments total EUR 263 million and relate to financial protocols with Mediterranean non-member countries. The amount included here is the difference between the total amount of the protocols signed and the amount of the budget commitments entered in the accounts. These protocols are international treaties that cannot be wound up without the agreement of both parties, although the process (of winding them up) is on-going.

5.12.3 Fisheries agreements

These are commitments totalling EUR 401 million entered into with third countries for operations under international fisheries agreements.

5.13 CONTRIBUTIONS TO RELATED ORGANISATIONS

This sum represents payments outstanding on non-called-up capital subscribed by the Commission.

5.13.1 Uncalled share capital: EBRD

EUR millions

EBRD	Total EBRD capital	Commission subscription
Capital	19 794	600
Paid-in	(5 198)	(157)
Uncalled	14 596	443

5.13.2 Uncalled share capital: EIF

EUR millions

EIF	Total EIF capital	Commission subscription
Capital	2 865	786
Paid-in	(573)	(157)
Uncalled	2 292	629

At the EIF Annual General Meeting of Shareholders held on 7 May 2007, it was decided to issue 1,000 new shares identical to the 2,000 existing ones (nominal value of EUR 1 million each; paid in ratio of 20%). The shareholders of the Fund have the option to subscribe pro-rata, at their discretion, over a four year period starting in 2007 and ending in 2010 to these new shares. The EIB will subscribe by 30 June 2010 to all shares that the other shareholders have not yet subscribed to.

During 2008 the Communities subscribed for 95 shares with a nominal amount of EUR 1 million per share, of which 20% of the nominal amount and the premium were paid in 2008. The participation of the Communities is limited to 900 shares (of EUR 900 million). See also note 2.3.1.

5.14 OPERATING LEASE COMMITMENTS

EUR millions

Description	Future amounts to be paid			Total
	< 1 year	1 - 5 years	> 5 years	
Buildings	290	1 114	918	2 322
IT materials and other equipment	7	12	8	27
Total	297	1 126	926	2 349

This heading covers buildings and other equipment rented under operating leasing contracts that do not meet the conditions for entry on the assets side of the balance sheet. The amounts indicated correspond to commitments still to be paid during the term of the contracts.

In 2008, EUR 284 million was recognised as an expense in the economic outturn account in respect of operating leases.

5.15 CONTRACTUAL COMMITMENTS

This heading covers amounts that the European Communities are committed to pay in the future under contracts existing at the balance sheet date. They cover primarily multi-annual contracts relating to the provision of services such as security, cleaning, etc, but also contractual commitments concerning specific projects such as building works. The amounts indicated correspond to amounts committed to be paid during the term of the contracts.

Included here is the outstanding contractual obligation of EUR 243 million concerning building related contracts of the Council, as well as EUR 445 million relating to building contracts of the Parliament. The other significant amount included here is EUR 28 million, which concerns the extension of a Court of Justice building in Luxembourg. This year there is also EUR 155 million included under this heading relating to procurement arrangements between the Fusion for Energy Agency (European Joint Undertaking for ITER and the Development of Fusion Energy) and ITER International.

6. RECOVERY OF UNDUE PAYMENTS

6.1 INTRODUCTION

The recovery of undue payments is the last stage in the operation of control systems, and the evaluation of these recoveries is essential in order to demonstrate sound financial management. The amounts recovered usually relate to expenditure booked in earlier years, due to the time which elapses between the date of a payment and that of an ex-post audit, and to the time necessary for contradictory procedures and for establishing the amount finally due. In the field of agriculture, this time is further extended if the Member State concerned requests a conciliation procedure.

When checking an EU-funded project, auditors seek to verify the correct application of the, sometimes complicated, financial and contractual rules. Although errors, irregularities and fraud may occur at any stage of an EU project or contract, they are most likely to be discovered at the final stage: i.e. when the beneficiary sends in his final payment claim.

The objective of this chapter is to give an overview of the procedure in place for the recovery of undue payments and to present a best estimate of the total amount. There are a variety of ways by which undue payments are recovered by the European Commission when there is a clear case of a financial error or irregularity, which are explained below. For Structural Actions, when advances made are higher than the final costs of a project, unused pre-financing has to be recovered. Such recoveries are not considered as being recovery of errors or irregularities, and are thus excluded from the analysis below.

In order to improve its reporting on amounts recovered relating to errors and irregularities, the Commission has enhanced its financial accounting system with a new functionality. The main objective is to disclose those errors and irregularities which are recovered by the Commission Services by deduction from subsequent payments or by recovery order.

6.2 RECOVERY OF UNDUE PAYMENTS MADE UNDER SHARED MANAGEMENT

Some 80% of the budget is managed jointly by European Commission and the Member States. This shared management expenditure includes principally expenditure on agriculture, structural actions and fisheries. When the European Commission implements the budget under shared management, implementation tasks and responsibilities, including the correction of ineligible expenditure, are delegated to Member States: thus they are primarily responsible for correcting irregularities committed by beneficiaries. The European Commission has an overall supervisory role: it checks the sufficiency of Member States' financial management and imposes corrections if it finds that a Member State had not adequately protected the EC budget from irregularities. Such corrections may also result from audits and controls carried out by European Court of Auditors or from OLAF investigations.

The control chain would indeed not be complete without a mechanism which ensures that the Member States carry out their work properly and which, if they fail to do so, imposes the necessary financial consequences.

The Commission has the power to apply **extrapolated or flat-rate corrections** in certain cases where it is not possible or practicable to quantify the amount of irregular expenditure precisely, or when it would be disproportionate to cancel the expenditure in question entirely. Extrapolation is used when there are results of a representative sample of files available in relation to a systemic irregularity. Flat rate corrections are applied in the case of individual breaches or systemic irregularities where the financial impact is not precisely quantifiable because it is subject to too many variables or diffuse in its effects.

6.2.1 *Recovery of expenditure charged to agriculture and rural development*

Under EAGF and EAFRD, which have replaced the EAGGF Guarantee section, the mechanism of recovery consists of the clearance of accounts and the recovery of irregularities.

Clearance of accounts procedure

The clearance of accounts procedure is operated by the Commission and includes an annual financial clearance of accounts of each paying agency and a multi-annual conformity clearance covering the conformity of the expenditure declared by a Member State with EU rules. In the case of EAGF, all these amounts are booked in the economic outturn account of the Commission as revenue. For EAFRD, the amounts recovered by the Member States themselves, as well as those resulting from the annual financial clearance of accounts, are as a general rule reusable for the programme.

Financial clearance: the Commission adopts an annual clearance of accounts decision, by which it formally accepts the paying agencies annual accounts on the basis of management verifications, and of the certificates and reports from the certification bodies.

Conformity clearance is designed to exclude expenditure from EU financing which has not been paid in conformity with EU rules, thus shielding the EU budget from expenditure that should not be charged to it. The conformity clearance is, therefore, not a mechanism by which irregular payments are recovered directly from the final beneficiaries. However, financial corrections are a strong incentive for the Member States to improve their management and control systems and thus to prevent or detect and recover irregular payments to final beneficiaries. Furthermore, a conformity correction does not relieve the Member State of its responsibility to pursue identified irregularities, otherwise an infringement procedure may be launched. Whereas the financial clearance is an annual exercise, conformity clearance does not follow an annual cycle. It covers expenditure incurred in more than one financial year, with the exception of expenditure made more than 24 months before the Commission officially notifies the Member State of its audit findings. Conformity corrections are treated as assigned revenue.

Financial clearance of payments executed that do not respect the regulatory deadlines: for the most important support regimes under the EAGF, the regulations provide that Member States must make the payments to the beneficiaries within certain deadlines. The respect of the fixed deadlines is systematically controlled three times a year in accordance with Art. 9 of Regu-

lation 883/06. In case of non respect of the deadlines, the Commission effects reductions, subject to certain allowances for special cases and exceptional circumstances, as well as proportionality. The reductions are made in the context of the monthly payments to Member States and in the annual financial clearance. The financial corrections for the non respect of payment deadlines are treated as 'negative payments' and accounted for in the economic outturn account as a reduction of expenses.

Recovery of irregularities declared by Member States

Member States are obliged to recover sums lost as a result of irregularities following their national rules and procedures. For actions financed by EAGF, if they succeed in recovering from the beneficiaries, they credit the recovered sums to the Commission and these are booked in the economic outturn account as revenue. For EAFRD, recoveries are deducted from the next payment claim, and therefore the relevant EAFRD amount can be reused for the programme. However, it is not always easy to recover the sums spent irregularly. If the Member State needs more than four years to recover, or eight years in the case of national court proceedings against the beneficiary, the Commission charges 50% of the outstanding sum to the Member State concerned, thereby protecting the financial interests of the EU (the so-called "50/50 rule"). This is done via the financial clearance procedure described above. After this accounting exercise, the Member State is still obliged to continue its recovery actions. 50% of the sums thus recovered are to be handed over to the EU budget. It should be noted that EAGF amounts recovered are permitted to be transferred to the Commission after a reduction of 20% by the Member States to cover their costs. Under all circumstances, the Commission keeps an eye on the Member States' recovery actions. If a Member State does not pursue the recovery or is not diligent in its actions, the Commission may decide to intervene via the conformity clearance procedure and to impose a financial correction on the Member State concerned.

6.2.2 Recovery of expenditure under Structural Actions

In this domain, the mechanism of recovery of errors, irregularity and fraud mainly consists of financial corrections.

Financial corrections: Expenditure not meeting the conditions of funding, because of irregularity, must be excluded from co-financing by the EU budget. This exclusion is called a "financial correction". The purpose of such corrections is to restore a situation where 100% of the expenditure declared for co-financing from Structural Actions is in line with the applicable national and Community rules and regulations.

Financial corrections can result from controls and audits at any level of the control system in the Member States or from audits by the Commission or the European Court of Auditors or OLAF investigations. Member States are primarily responsible for making financial corrections in relation to irregularities committed by beneficiaries. Where the Member State agrees to make a correction as a result of its own or EC control and audit activity, it may withdraw the irregular expenditure and re-use the EC funding released for other expenditure under the programme concerned, but not related to the operation or operations that were the subject of the correction. The European Commission may take a formal decision to apply financial corrections to the Member State where the Member State has failed to make the required corrections or where there are serious failings in the management and control systems which could lead to systemic

irregularities. A financial correction applied by Commission decision involves a reduction of the EC funding of the programme concerned. The corrections effected by Member States following their own or EC audits are not registered in the Commission's accounting system, and the information is reported by Member States once a year. Only the financial corrections implemented by a recovery order or by a reduction in a final payment are included in the EC accounts.

6.3 RECOVERY OF UNDUE PAYMENTS – OTHER MANAGEMENT TYPES

The mechanisms foreseen are recovery orders or reduction of the next payment. Many EU projects run over several years and corrections are usually applied, by adjustment of subsequent claims and/or final payments, following periodic checks or scrutiny of independent audit certificates. Information on recoveries made by deduction against subsequent payment, and thus where no recovery order is issued, is identifiable in the Commission's accounting system.

At or after the closure of a project, the European Commission may also apply further corrections on the basis of its own or the Court of Auditors' audits on the spot. These corrections can be made in later years and a recovery order will be issued.

6.4 ANALYSIS OF RECOVERY OF UNDUE PAYMENTS DECIDED IN 2008

The figures presented below are established where possible on an "accrual basis" under which the recovery is allocated to the year in which:

- the recovery order was issued, or a reduced payment was made;
- a correction was decided by the Commission or agreed by Member States; or
- under the EAGF and EAFRD, the amount of irregularities is recovered and declared by Member States.

6.4.1 Shared Management

6.4.1.1 Recovery of expenditure charged to agriculture and rural development: EAGF and EAFRD

During the calendar year 2008, the Commission decided, concerning EAGF, to recover from Member States EUR 917 million following financial corrections. In addition, during the same year, Member States repaid to the Commission EUR 360 million representing irregular expenditure which they had recovered from beneficiaries. Concerning EAFRD, there was no recovery of undue payments in 2008. All these recoveries are recorded in the Commission's accounting system and included in the economic outturn account.

	EUR millions	
	2008	2007
Financial corrections decided, being:		
<i>Conformity clearance</i>	859	532
<i>Financial clearance and non-respected payment deadlines</i>	58	75
Total	917	607
Irregularities declared by Member States	360	247
Total	1 277	854

The Commission can make financial corrections under “conformity decisions” only for expenditure declared in a period limited to the 24 months before an audit is undertaken on a specific area of expenditure declared by a specific Member State. The amount to be received under the agricultural conformity financial corrections decisions still to be taken following the Commission’s audits is estimated at EUR 1.7 billion. This concerns certain expenditure declared over the period 2001-2008 and is disclosed as a contingent asset in note 5.3 to these financial statements.

6.4.1.2 Recovery of expenditure under Structural actions

A. Financial corrections

The total financial corrections made to programmes, resulting from Commission audit work, audit work by the Court of Auditors and the closure process for the two programme periods are given below:

TOTAL FINANCIAL CORRECTIONS CONCERNING 2000-2006 PROGRAMMES/PROJECTS

	EUR millions			
	Total Financial Corrections at 31.12.2007	Fin. Corrections 2008 without Commission Decision	Fin. Corrections 2008 by Commission Decision	Total Financial Corrections at 31.12.2008
Cohesion Fund	103	19	35	157
ERDF	1 561	594	25	2 180
ESF	475	496		971
FIFG	0	2		2
EAGGF Guidance	1		2	3
Total	2 140	1 111	62	3 313

TOTAL FINANCIAL CORRECTIONS CONCERNING 1994-99 PROGRAMMES/PROJECTS

EUR millions

	Total Financial Corrections at 31.12.2007	Fin. Corrections 2008 without Commission Decision	Fin. Corrections 2008 by Commission Decision	Total Financial Corrections at 31.12.2008
Cohesion Fund	225	7	31	263
ERDF	858	11	319	1 188
ESF	345		26	371
FIFG	39	2	15	56
EAGGF Guidance	114	3		117
Total	1 581	23	391	1 995

The state of implementation of the financial corrections for Structural Actions in 2008, which total EUR 1 587 million, is as follows:

EUR millions

	ERDF	CF	ESF	FIFG	EAGGF_G	Total
Financial Corrections 1994-99 period:						
With recovery order	105	29	20	9	3	166
Decommitment/deduction at closure	96	1	6	2		105
Not yet implemented	129	8		6		143
Sub-total 1994-99 period	330	38	26	17	3	414
Financial Corrections 2000-2006:						
With recovery order	25	7			2	34
Deduction by Member States	201	4	492			697
Decommitment/deduction at closure		11				11
Not yet implemented	393	32	4	2		431
Sub-total 2000-2006 period	619	54	496	2	2	1 173
Total financial corrections	949	92	522	19	5	1 587

The preceding table does not include the results of the Member States' own checks of Structural fund expenditure. Moreover, there are potential financial corrections in the process of being decided amounting to EUR 2.6 billion. The amount is based on audit findings of the Commission and those of the European Court of Auditors, all of which are being followed up by the DGs. This is the best estimate at the time of closure of the 2008 accounts, taking into account the state of play of the follow up of the audits and particularly final position letters (or equivalent) issued. It is disclosed as a contingent asset (see note 5.3).

Financial correction activity (withdrawals, recoveries and pending recoveries) by Member States for Structural Actions for 2008

Member States are obliged to provide the Commission with updated information on withdrawals, recoveries and pending recoveries of Structural Funds both for 2008 and cumulatively for the whole 2000-2006 period, and covering all four funds (ERDF, ESF, EAGGF and FIFG).

The withdrawals and recoveries in 2008 based on the data reported by Member States in line with their obligation under Regulations 438/2001 and 448/2001 amount to EUR 558 million and EUR 463 million respectively, being EUR 1 021 million in total. These figures take account of the results of the first analysis by the Commission which has led to corrections of certain data. The on-the-spot audits of the Member States' data carried out by the Commission during 2008 in ten Member States showed that the systems for recording and reporting data are not yet completely reliable in all Member States, although there is evidence that the quality is improving and that there has been some improvement in comparison with previous years.

In the 2007 annual accounts the Commission reported the figure for withdrawals and recoveries of Structural fund contributions to 2000-2006 programmes by Member States in 2007 as being EUR 540 million. On the basis of the revised data received, the corrected figure now amounts to EUR 901 million (EUR 565 million withdrawals and EUR 336 million recoveries). The difference was mainly due to the communication of previously missing amounts by some of the larger Member States.

There is a risk of overlap between the figures reported for financial corrections resulting from the work of EU bodies (audits by the Commission and the Court of Auditors and OLAF investigations) and those reported by Member States. This is because a large proportion of the financial corrections resulting from the work of those bodies are accepted by the Member States and implemented by them without a formal Commission decision by withdrawing the expenditure concerned from their expenditure declarations. As Member States are not obliged to distinguish corrections resulting from EU bodies' work from those due to their own controls and audits, the extent of this overlap cannot be precisely quantified. However, a comparison Member State by Member State between the Member States' figures for 2008 and the amounts of corrections resulting from EU bodies' work which Member States have accepted suggests that the amount of the overlap should not exceed EUR 600 million. For 2007, the overlap cannot exceed EUR 220 million, the total amount of corrections resulting from EU bodies' work that the Member States accepted in that year.

In the 2007-2013 programme period, the Commission has incorporated the annual reporting in its IT system. This will mean that it will receive data directly from Member States that will separately identify corrections resulting from EU work, thus making the overlap quantifiable.

B. Other recoveries

The recovery orders not related to financial corrections but issued to recover amounts arising from error and irregularity total EUR 31 million.

6.4.2 Recovery of expenditure under other management types

For other management types, the total amount for 2008 is EUR 72 million. Of this, EUR 48 million concerns recovery of expenses and EUR 24 million recovery of pre-financing.

EUR millions

Recovery orders for undue payments issued in 2008	2008	2007
External actions	32	178
Internal policies	40	81
Total	72	259

6.5 SUMMARY OF THE RECOVERY OF UNDUE PAYMENTS 2008

The following table presents a best estimate of the total amount decided in 2008 to be recovered. As explained above, they do not include the results of the Member States' own checks of Structural Actions expenditure.

Summary of the recovery of undue payments

EUR millions

	2008	2007
EAGGF		
- financial corrections	917	607
- irregularities declared by Member States	360	247
Structural and cohesion funds (1994-1999 and 2000-2006 programmes)		
A. Financial corrections	1 587	396
B. Other recoveries	31	
Recovery orders for undue payments:		
- external actions	32	178
- internal policies	40	81
Total	2 967	1 509

7. FINANCIAL RISK MANAGEMENT

EUROPEAN COMMISSION TREASURY OPERATIONS

The following disclosures relate to the treasury operations carried out by the European Commission in order to implement its budget. The rules and principles for the management of the Commission treasury operations for the implementation of the budget are laid down in the Council Regulation 1150/2000 (as amended by Council Regulation 2028/2004) and in the Financial Regulation (Council Regulation 1605/2002, amended by Council Regulation 1995/2006) and its Implementing Rules (Commission Regulation 2342/2002, amended by Commission Regulation 478/2007).

As a result of the above regulations the following main principles apply:

- The own resources are paid by the Member States into accounts opened for this purpose in the name of the Commission with the Treasury or the body appointed by each Member State. The Commission may draw on the above accounts solely to cover its cash requirements.
- Own Resources are paid by Member States in their own national currencies, while the Commission's payments are mostly denominated in EUR.
- Bank accounts opened in the name of the Commission may not be overdrawn.
- The balances of accounts held in other currencies than EUR are either used for payments in the same currencies or periodically converted in EUR (within the respect of Council Regulation 1150/2000, when this concerns funds held on the own resources accounts).

In addition to the own resources accounts, other bank accounts have been opened by the Commission, with central banks and commercial banks, for the purpose of executing payments and receiving receipts other than the Member State contributions to the budget. All these accounts (with the exception of the accounts for receipts) are replenished daily on the basis of the payments to be executed from them. Minimum cash balances are kept on all these accounts in order to allow for the execution of urgent payments should any delay in their funding exceptionally occur. The balances of the receipts accounts are regularly transferred to the own resources accounts or to other accounts, depending on the treasury needs.

All commercial banks where the Commission holds bank accounts are selected by call for tenders. Imprest accounts are opened in accordance with Article 63 of the Financial Regulation and bank accounts are opened for their needs, with banks selected by simplified tendering procedure.

7.1 OPERATIONAL RISK

Treasury and payment operations are highly automated and rely on modern informatics systems. Specific procedures are applied to guarantee system security and to ensure segregation of duties in line with the Financial Regulation, the Commission's internal control standards, and audit principles. A written set of guidelines and procedures regulate the management of the treasury and

payment operations with the objective of limiting operational and financial risk and ensuring an adequate level of control. They cover the different areas of operation and compliance with the guidelines and procedures is checked regularly. They include in particular:

- Opening and closing of bank accounts
- Parameterisation of financial systems
- Treasury planning and forecasting
- Payments execution and cash management
- Foreign exchange operations
- Selection of banks
- Monitoring of transactions and bank reconciliation
- Maintenance and control of the third party files

7.2 FINANCIAL RISK

Currency risk:

Own resources paid by Member States in currencies other than EUR are kept on the own resources accounts. They are converted into EUR when they are needed to cover the execution of payments in EUR or, in a limited number of cases, they are directly used for payments to be executed in the same currencies.

A number of accounts in EU currencies other than EUR, and in USD, are held by the Commission with commercial banks, for the purpose of executing payments denominated in these same currencies. These accounts are replenished depending on the amount of payments to be executed; as a consequence their overnight balances are kept very low and only represent a limited exposure to fluctuations in foreign currency exchange rates.

When miscellaneous receipts (other than own resources) are received in currencies other than EUR, they are either transferred to other accounts in the same currencies, if they are needed to cover the execution of payments, or converted in EUR and transferred to other EUR accounts depending on the treasury needs. Imprest accounts held in currencies other than EUR are replenished depending on the estimated short term local payments needs in the same currencies. Balances on these accounts are kept within their respective ceilings.

Credit risk:

Most of the Commission's treasury resources are kept, in accordance with Council Regulation 1150/2000, in the accounts opened by Member States for the payment of their contributions (own resources). All such accounts are held with Member States' treasuries or national central banks. These institutions carry virtually no credit/counterparty risk for the Commission.

A small part of the Commission's treasury resources are kept with commercial banks, in order to cover the execution of payments, or other banking operations. It is normal practice to replenish commercial bank accounts on a just-in-time basis. As a consequence the amounts kept overnight on these accounts are constantly very low (between EUR 50 million and EUR 150 million on average, spread over more than 30 accounts) and thus the Commission's risk exposure is

very modest. In addition specific guidelines are applied for the selection of commercial banks in order to further minimise credit risk.

All commercial banks are selected by call for tenders. The minimum short term credit rating required for admission to the tendering procedures is Moody's P-1 or equivalent (S&P A-1 or Fitch F1). A lower level may be required in specific circumstances. All contracts provide for the possibility of immediate termination by the Commission in case the counterparty's rating is revised and falls below the minimum level required.

Imprest accounts are held with local banks selected by a simplified tendering procedure. Rating requirements depend on the local situation and may significantly differ from country to country. In order to limit credit risk exposure, balances on these accounts are kept at the lowest possible levels (taking into account operational needs), they are regularly replenished, and the applied ceilings are reviewed on a yearly basis.

In the context of the difficult financial and economic environment of the second half of 2008, specific, intensified, measures have been adopted by the Commission's treasury for monitoring its risk exposure. At the same time the overall average amount of funds held on the commercial bank accounts used for the execution of the Commission's payments has been further reduced, with the objective of minimising risk exposure. The Commission's treasury will keep these additional measures in place in 2009, and as long as the unstable financial situation persists.

Interest rate risk:

Accounts opened with Member States Treasuries or National Central Banks in accordance with Art 9 of Council Regulation 1150/2000, are non-interest bearing and free of charges. For all other accounts held with National Central Banks remuneration depends on the specific conditions offered by each bank; interest rates applied are variable and adjusted to market fluctuations.

For most accounts held with commercial banks interest is calculated on a variable basis, linked to the ECB marginal rate for its main refinancing operations, and adjusted to reflect any fluctuations of this rate. As a result no interest rate risk is taken on by the Commission.

7.3 MANAGEMENT OF PROVISIONALLY CASHED FINES

The following disclosures relate to the treasury operations carried out by the European Commission for the administration of fines provisionally cashed (restricted cash).

Currency risk:

Since all fines are imposed and paid in EUR, the Commission is not exposed to any risk of fluctuations in foreign currency exchange rates.

Credit risk:

Guidelines are applied for the selection of banks where funds are held, and exposure with any single counterpart is limited. All funds are held on current accounts and can be drawn at any time, without previous notice. Banks are selected by call for tenders. The minimum banks' deposit long term rating required for admission to the tendering procedures is Moody's Aa or equivalent (that is, S&P AA- or Fitch AA-).

Exposure with any single counterpart is limited to 5% of its "Capital + reserves + subordinated loans", as resulting from its certified consolidated accounts. This limit is revised at least on a yearly basis. All contracts provide for the possibility of immediate termination by the Commission in case the counterpart's rating is revised and falls below the minimum level required.

As stated above, in the context of the difficult financial and economic environment of the second half of 2008, specific, intensified, measures have been adopted by the Commission's treasury for monitoring its risk exposure. Focus has been extended also to the level of the short term ratings for counterparties with which funds related to provisionally cashed fines are held by the Commission. All such additional risk monitoring measures, adopted by the Commission's treasury in the current context, will remain in place in 2009, and as long as the unstable financial situation persists.

Interest rate risk:

Interest for all accounts is calculated on a variable basis, which is linked to the ECB minimum rate for its main refinancing operations, and adjusted to reflect any fluctuations of this rate. As a result no interest rate risk is taken on by the Commission.

BORROWING & LENDING ACTIVITIES AND GUARANTEE FUND

The following disclosures relate to lending and borrowing activities carried out by the European Commission through **Macro Financial Assistance (MFA)**, **Balance of Payments (BOP)** and **Euratom**, as well as the **Guarantee fund**.

7.4 RISK MANAGEMENT POLICIES AND HEDGING ACTIVITIES

MFA, BOP and Euratom:

The lending and borrowing transactions, as well as related treasury management, are carried out by the Communities according to the respective Euratom Council Decisions, if applicable, and internal guidelines. Written procedure manuals covering specific areas such as borrowings, loans and treasury management have been developed and are used by the relevant operating units. Financial and operational risks are identified and evaluated and compliance to internal guidelines and procedures is checked regularly. As a general rule, there are no hedging activities carried-out as lending operations are financed by “back-to-back” operations and as there are no open currency positions existing.

Guarantee Fund:

The rules and principles for the asset management of the Guarantee Fund (see note **2.3.3**) are laid out in the Convention between the European Commission and the European Investment Bank (EIB) dated 25 November 1994 and the subsequent amendments dated 17/23 September 1996, 8 May 2002 and 25 February 2008.

The main principles, as extracted directly from the Convention, are as follows:

- The Guarantee Fund will operate in one single currency: EUR. It will exclusively invest in this currency in order to avoid any exchange rate risk.
- Management of the assets will be based upon the traditional rules of prudence adhered to for financial activities. It will have to pay particular attention to reducing the risks and to ensuring that the managed assets have a sufficient degree of liquidity and transferability, taking into account the commitments to which the Guarantee Fund will be confronted.

7.5 CURRENCY RISK

Most of all financial assets and liabilities are denominated in Euro, the Communities do not take on exposure to effects of fluctuations in foreign currency exchange rates on its financial position and cash flows.

However, the Communities have loans, through the financial instrument Euratom, denominated in foreign currency (USD) which are financed by borrowings with an equivalent amount in USD (back-to-back operation). As at the balance sheet date, the Communities did not take on a net exposure on effects of fluctuations in foreign currency exchange rates on its financial position and cash flows in Euratom.

7.6 INTEREST RATE RISK

Due to the nature of its lending and borrowing activities, the Communities have significant interest-bearing assets and liabilities.

MFA & Euratom:

Borrowings issued at variable rates expose the Communities to cash flow interest rate risk. They represent approximately 93% of the total volume of borrowings. However, the interest rate risks that arise from borrowings are offset by equivalent loans in terms and conditions ("back-to-back" operations). At the balance sheet date, the Communities have loans (expressed in nominal amounts) with variable rates of EUR 1.05 billion (2007: EUR 1.18 billion), with a re-pricing taking place every 6 months. The Communities also have loans (expressed in nominal amounts) with fixed rates for EUR 85 million in 2008 (2007: EUR 85 million) which have a final maturity date of more than five years.

BOP:

The Communities have a loan (expressed in nominal amounts) under the financial instrument BOP with a fixed rate for EUR 2 billion in 2008 (2007: EUR 0 million). It has a final maturity date of less than five years.

Guarantee Fund:

As agreed between the Commission and the EIB, no significant risk is currently taken and therefore hedging is not performed. As the transactions and operations are only denominated in Euro, no other hedging is required. The distribution of the Guarantee Fund's holdings at 31 December 2008 and 2007 (market value excluding accrued interest) is detailed in the table below:

Segments	Fixed rate investments						Variable rate securities		Total	
	Less than 3 months		3 months to 1 year		1 to 10 years					
	EUR m		EUR m		EUR m		EUR m		EUR m	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Current accounts	1	1	0	0	0	0	0	0	1	1
Short term deposits and cash equivalents	203	247	0	0	0	0	0	0	203	247
Available-for-sale assets	15	25	59	84	746	703	48	71	868	883
Total	219	273	59	84	746	703	48	71	1 072	1 131
Percentage	20%	24%	6%	7%	70%	63%	4%	6%	100%	100%

At 31 December 2008, for the cash and cash equivalents (fixed term deposits), the effective interest rate range is between 3.10% and 5.15%. For the Available-for-Sale (AFS) securities portfolio, the effective interest rate range is between 2.94% and 5.52%.

7.7 CREDIT RISK

The Communities take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Exposure to credit risk is managed, firstly by obtaining country guarantees in the case of Euratom, then through the Guarantee Fund. The Guarantee Fund for external actions was set up in 1994 to cover default risks related to borrowings which finance loans to countries outside the European Union. In any case the exposure to credit risk is managed by the possibility to call on the EU budget in case a debtor would be unable to reimburse the amounts due in full. To this end the Communities are entitled to call upon all the Member States to ensure compliance with the Communities legal obligation towards its lenders.

MFA & Euratom:

The largest concentrations of credit risk that the Communities have are towards Romania, Serbia and Bulgaria. These countries represent approximately 28%, 24% and 22% respectively of the total volume of loans. As far as treasury operations are concerned, guidelines on the choice of counterparties must be applied. Accordingly, the operating unit will be able to enter into deals only with eligible banks being part of a “trading list of authorised banks” and having sufficient counterparty limits.

Balance of Payments (BOP):

The credit risk exposure of the Community under the BOP facility, as at 31 December 2008, is entirely towards the Republic of Hungary.

Guarantee Fund:

Guarantee Fund Fixed Term Deposits - Profile of counterparties

In accordance with the agreement between the Community and the EIB on the management of the Guarantee Fund, all interbank investments should have a minimum issuer short term rating from Moody's or equivalent of P-I. As at 31 December 2008 all investments (EUR 183 million) were made with counterparties having a minimum rating of P-I Moody's or equivalent (also for 2007, EUR 248 million).

Other cash equivalents – profile of counterparties

As at 31 December 2008, the fund invested in one short term discount paper and all investments (EUR 20 million) were made with counterparties having a minimum rating of P-I Moody's or equivalent.

Guarantee Fund Available-for-sale assets – Profile of issuers

The profile of issuers, market value excluding accrued interest, at 31 December 2008 is as follows:

Issuer	EUR millions			
	31.12.2008		31.12.2007	
Other issuers Aaa	217	25%	310	35%
Supra Aaa	0	0%	5	1%
Govt./Agencies Aaa	339	39%	196	22%
Govt./Agencies Aa1	53	6%	72	8%
Govt./Agencies Aa2	136	16%	0	0%
Govt./Agencies Aa3	0	0%	81	9%
Govt./Agencies A1	82	9%	73	8%
Govt./Agencies A2	32	4%	132	15%
Govt./Agencies A3	9	1%	4	1%
Govt./Agencies Baa1	0	0%	10	1%
Govt./Agencies NR	0	0%	0	0%
Total	868	100%	883	100%

All the securities held in the portfolio are in line with the revised management guidelines and meet the following criteria for:

- Securities issued by Member States: minimum rating Baa3
- Securities issued by a Supranational, other States or Public Company: minimum rating Aa2
- Covered Bonds: rating Aaa
- Securities issued by Banks and Corporates: minimum rating Aa2

7.8 FAIR VALUE

The estimated fair value of the MFA, BOP and Euratom loans and borrowings is determined using a discounted cash flow model. According to this model, expected future cash flows are discounted by applying AAA yield curves appropriate for the remaining term to maturity. The estimated fair value of floating rates loans are assumed to approximate their carrying amount since re-pricing at market interest rates takes place every 6 months.

At the balance sheet date the estimated fair value of fixed interest bearing loans and borrowings amount to EUR 2 118 million (2007: EUR 90 million) and EUR 2 118 million (2007: EUR 89 million), respectively, compared to corresponding carrying amount of EUR 2 091 million (2007: EUR 87 million) and EUR 2 091 million (2007: EUR 87 million), respectively.

7.9 LIQUIDITY POSITION

The table below provides an analysis of assets and liabilities of the **Guarantee Fund** into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for

assets it is the latest possible repayment date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the “Maturity undefined” category.

EUR millions

Maturity	Less than 3 months to 3 months	1 to 10 years	Maturity undefined	Total
Assets in EUR:				
Current accounts	1	0	0	1
Short term deposits	203	0	0	203
<i>Of which accrued interests</i>	1	0	0	1
Available-for-sale assets	21	82	784	887
<i>Of which accrued interests</i>	6	13	0	19
Total	225	82	0	1 091
Liabilities in EUR:				
Equity	0	0	1 090	1 090
Account payables	1	0	0	1
Total	1	0	1 090	1 091
Net liquidity position at 31.12.2008	224	82	784 (1 090)	0
Cumulative liquidity position at 31.12.2008	224	306	1 090	0

EUROPEAN COAL & STEEL COMMUNITIES (in liquidation)

The following disclosures relate to lending and borrowing, as well as treasury activities carried out by the European Communities through the **European Coal & Steel Communities (in Liquidation)**. Further information is available in the accounts of the ECSC in liquidation.

7.10 RISK MANAGEMENT POLICIES AND HEDGING ACTIVITIES

The European Commission manages the liquidation of the liabilities of the ECSC and no new loans or corresponding funding is foreseen for the ECSC in liquidation. New ECSC borrowings are restricted to refinancing with the aim of reducing the cost of funds. As far as treasury operations are concerned, the principles of prudent management with a view to limit operational risk, counterparty risk and market risk are applied.

7.11 MARKET RISK

The ECSC in liquidation is exposed to foreign exchange risk arising from currency exposures with respect to the UK pound. The GBP assets and liabilities position is mainly composed of euro equivalent 157 million unquoted debt securities issued by the European Investment Bank as substitute for a defaulted debtor (see note 2.4.2). The ECSC in liquidation is exposed to debt securities price risk because of investments classified on the balance sheet as available-for-sale.

7.12 INTEREST RATE RISK

Due to the nature of its activities, the ECSC in liquidation is exposed to the effect of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. The interest rate risks that arise from borrowings are generally offset by equivalent loans in terms and conditions (back-to-back operations). Debt securities issued at variable rates expose the ECSC in liquidation to cash flow interest rate risk whereas debt securities at fixed rates expose it to fair value interest rate risk. Fixed rate bonds represent approximately 97% of the investment portfolio at the balance sheet date (2007: 94%).

7.13 CREDIT RISK

The ECSC in liquidation is exposed to the risk that a counterparty may be unable to pay amounts in full when due. The operating unit is only allowed to enter into deals with eligible banks being part of a “trading list of authorised banks” and having sufficient counterparty limits. Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations. Exposure to credit risk is also managed by obtaining collateral as well as country, corporate and personal guarantees. 73% of the total amount outstanding is covered by guarantees from a Member State or equivalent bodies (public institutions or public sector industrial groupings in the Member States). 20% of loans outstanding have been granted to banks or have been guaranteed by banks.

7.14 LIQUIDITY RISK

The liquidity risk that arises from borrowings is generally offset by equivalent loans in terms and conditions (back-to-back operations).

For the asset and liability management of ECSC in liquidation, the Commission manages liquidity requirements based on disbursement forecasts with an 11 years horizon, obtained through consultations with the responsible Commission services.

7.15 FAIR VALUE

The estimated fair value of loan and borrowings is determined using a discounted cash flow model. The available-for-sale securities are presented at fair value which is the market price plus accrued interests. There are no financial instruments measured at fair value using a valuation technique that is not supported by observable market prices or rates. The nominal value less impairment provision of trade receivables and the nominal value of trade payables are assumed to approximate their fair values. The fair value of cash and cash equivalents including current accounts and short-term deposits (of less than three months) is their carrying amount.

8. RELATED PARTY DISCLOSURES

For the purposes of presenting information concerning the key management of the European Communities, such persons are shown here under five categories:

Category 1: the President of the Commission and the President of the Court of Justice

Category 2: the Secretary-General of the Council and the Vice-presidents of the Commission

Category 3: the Members of the Commission, Judges and Advocates General of the Court of Justice, President and Members of the Court of First Instance, President and Members of the European Civil Service Tribunal, Ombudsman and European Data Protection Supervisor

Category 4: the President and Members of the Court of Auditors

Category 5: the highest ranking civil servants of the Institutions and Agencies

KEY MANAGEMENT FINANCIAL ENTITLEMENTS

EUR

Entitlement (per employee)	Category 1	Category 2	Category 3	Category 4	Category 5
Basic salary (per month)	24 422.79	22 122.10	17 697.68 – 19 909.88	19 113.50 – 20 352.33	11 253.14 – 17 697.68
Residential/Expatriation allowance	15%	15%	15%	15%	16%
Family allowances:					
Household (% salary)	2% + 164.27	2% + 164.27	2% + 164.27	2% + 164.27	2% + 164.27
Dependent child	358.96	358.96	358.96	358.96	358.96
Pre-school	87.69	87.69	87.69	87.69	87.69
Education, or	243.55	243.55	243.55	243.55	243.55
Education outside place of work	487.10	487.10	487.10	487.10	487.10
Presiding judges allowance	N/A	N/A	500 - 810.74	N/A	N/A
Representation allowance	1 418.07	0 - 911.38	500 - 607.71	N/A	N/A
Annual travel costs	N/A	N/A	N/A	N/A	Yes
Transfers to Member State:					
Education allowance ⁽¹⁾	Yes	Yes	Yes	Yes	Yes
% of salary ⁽¹⁾	5%	5%	5%	5%	5%
% of salary with no cc	max 25%	max 25%	max 25%	max 25%	max 25%
Representation expenses	reimbursed	reimbursed	reimbursed	N/A	N/A
Taking up duty:					
Installation expenses	48 845.58	44 244.20	35 395.36 – 39 819.76	38 227.00 – 40 704.66	reimbursed
Family travel expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Moving expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Leaving office:					
Resettlement expenses	24 422.79	22 122.10	17 697.68 – 19 909.88	19 113.50 – 20 352.33	reimbursed
Family travel expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Moving expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Transition (% salary) ⁽²⁾	40% - 65%	40% - 65%	40% - 65%	40% - 65%	N/A
Sickness insurance	covered	covered	covered	covered	optional
Pension (% salary, before tax)	max 70%	max 70%	max 70%	max 70%	max 70%
Deductions:					
Community tax	8% - 45%	8% - 45%	8% - 45%	8% - 45%	8% - 45%
Sickness insurance (% salary)	1.8%	1.8%	1.8%	1.8%	1.8%
Special levy on salary	4.21%	4.21%	4.21%	4.21%	4.21%
Pension deduction	N/A	N/A	N/A	N/A	10.9%
Number of persons at 31/12/2008	2	6	92	27	81

⁽¹⁾ with correction coefficient ("cc") applied⁽²⁾ paid for the first 3 years following departure

9. EVENTS AFTER THE BALANCE SHEET DATE

At the date of approval of these accounts, no material issues had come to the attention of the Accounting Officer of the Commission or were reported to him that would require separate disclosure under this section. The annual accounts and related notes were prepared using the most recently available information and this is reflected in the information presented above.

10. CONSOLIDATED ENTITIES

A. CONTROLLED ENTITIES

1. Institutions and consultative bodies

Committee of the Regions	European Data Protection Supervisor
Council of the European Union	European Economic and Social Committee
Court of Justice of the European Union	European Ombudsman
European Commission	European Parliament
European Court of Auditors	

2. Community Agencies

European Agency for Reconstruction (*)	European Monitoring Centre for Drugs and Drug Addiction
European Agency for Safety and Health at Work	European Union Agency for Fundamental Rights
European Aviation Safety Agency	European Network and Information Security Agency
European Centre for Disease Prevention and Control	European Training Foundation
European Centre for the Development of Vocational Training	European Agency for the Management of Operational Co-operation at External Borders of the Member States of the EU
European Environment Agency	Translation Centre for the Bodies of the European Union
European Food Safety Authority	European GNSS Supervisory Authority
European Foundation for the Improvement of Living and Working Conditions	Office for Harmonisation in the Internal Market (Trade Marks and Designs)
European Maritime Safety Agency	European Railway Agency
European Medicines Agency	Community Plant Variety Office
European Chemicals Agency (**)	Community Fisheries Control Agency
Fusion for Energy (European Joint Undertaking for ITER and the Development of Fusion Energy) (**)	

3. Executive Agencies

Executive Agency for Competitiveness and Innovation	Executive Agency for Health and Consumers
Education, Audiovisual & Culture Executive Agency	Trans-European Transport Network Executive Agency**

4. Other controlled entities

European Coal and Steel Community (in liquidation)
Eurojust***
European Police College (CEPOL) (**)

B. JOINT VENTURES

ITER International Fusion Energy Organisation (portion of interest/voting power: 48.5%)	Galileo Joint Undertaking in liquidation (portion of interest/voting power: 91.6%/49.3%)
SESAR Joint Undertaking (portion of interest 91.73%/voting power: 65%)	

C. ASSOCIATES

European Investment Fund (portion of interest/ voting power: 27.43%)

(*) Agency liquidated on 31 December 2008

(**) Consolidated for the first time in 2008

(***) Decentralised body of the EU falling under the pillar "Police & Judicial Co-operation in criminal matters"

II. NON-CONSOLIDATED ENTITIES

Although the Communities manage the assets of the below mentioned entities, they do not meet the requirements to be consolidated and so are not included in the European Communities accounts.

II.1 THE EUROPEAN DEVELOPMENT FUND (EDF)

The European Development Fund (EDF) is the main instrument for providing Community aid for development cooperation in the African, Caribbean and Pacific (ACP) States and Overseas Countries and Territories (OCTs). The 1957 Treaty of Rome made provision for its creation with a view to granting technical and financial assistance, initially to African countries which at that time were still colonised and with which some Member States had historical links.

Each EDF is concluded for a period of around five years. The 9th EDF expired on the entry into force of the 10th EDF on 1 July 2008.

The EDF is not funded from the Communities' Budget but from direct contributions from the Member States, which are agreed in negotiations. The amount a Member State pays is, amongst other things, partly based on their GNP and partly based on their historical links with the ACP States and OCTs involved. The Commission and the EIB manage the resources of the EDF.

The EDF is governed by its own Financial Regulation (OJ L 78 of 19/03/2008) which foresees the presentation of its own financial statements, separately from those of the Communities. The EDFs are subject to the external control of the Court of Auditors and the Parliament. For information purposes, the balance sheet and the economic outturn account of the 8th, 9th and 10th EDF are shown below.

II.2 THE SICKNESS INSURANCE SCHEME

The Sickness Insurance Scheme is the scheme that provides medical assurance to the staff of the various European Communities bodies. The funds of the Scheme are its own property and are not controlled by the European Communities, although its financial assets are managed by the Commission. The Scheme is funded by contributions from its members (staff) and from the employers (the Institutions/Agencies/bodies.) Any surplus remains within the Scheme.

The scheme has four separate entities – the main scheme covering staff of the Institutions, Agencies of the European Communities, and three smaller schemes covering staff in the European University of Florence, the European schools and staff working outside the EC such as staff in the EU delegations. The total assets of the Scheme at 31 December 2008 totalled EUR 288 million (2007: EUR 287 million).

BALANCE SHEET – 8th, 9th and 10th EDF

EUR millions

	31.12.2008	31.12.2007
CURRENT ASSETS:		
Receivables	17	8
Net pre-financing	918	957
Other current assets	(6)	(3)
Cash & cash equivalents	290	388
TOTAL ASSETS	1 219	1 350
CURRENT LIABILITIES:		
Payables	(702)	(704)
TOTAL LIABILITIES	(702)	(704)
NET ASSETS	517	646
FUNDS & RESERVES		
Called fund capital	17 079	25 019
Economic outturn of the year	(3 030)	(3 256)
Economic outturn carried forward from previous years	(15 784)	(22 411)
Other reserves	2 252	1 294
NET ASSETS	517	646

ECONOMIC OUTTURN ACCOUNT – 8th, 9th and 10th EDF

EUR millions

	2008	2007
TOTAL REVENUE	23	0
OPERATING EXPENSES		
<i>Operating Expenses</i>		
Programmable aid	416	638
Macro-economic support	344	427
Sectorial policy	1 387	1 149
Intra ACP projects	517	382
Interest-rate subsidies	2	1
Emergency aid	188	155
Refugee aid	6	(6)
Risk capital	17	58
STABEX	25	98
Sysmin	5	32
Other aid programmes related to former EDFs	19	5
Structural adjustments	0	(6)
Debt relief	(1)	180
Compensation export receipts	42	84
Institutional support	35	30
Congo Fund	<u>2</u>	<u>17</u>
<i>Total Operating Expenses</i>	<i>3 004</i>	<i>3 244</i>
<i>Administrative and financial expenses</i>	58	31
SURPLUS /(DEFICIT) FROM OPERATING ACTIVITIES	(3 039)	(3 275)
NON-OPERATING ACTIVITIES		
Financial income	13	19
Impairment losses on receivables	(4)	0
SURPLUS/(DEFICIT) FROM NON-OPERATING ACTIVITIES	9	19
ECONOMIC OUTTURN OF THE YEAR	(3 030)	(3 256)

ANNUAL ACCOUNTS OF THE EUROPEAN COMMUNITIES

FINANCIAL YEAR 2008

PART II

Consolidated reports on the implementation
of the budget of the European Communities
and explanatory notes

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(*) It should be noted that due to the rounding of figures into millions of euros, some financial data in these budgetary tables may appear not to add-up

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RESULT OF IMPLEMENTATION OF THE BUDGET

I. BUDGET OUTTURN 2008

EUR millions

	EFTA-EEA	EUROPEAN COMMUNITIES	Total 2008	Total 2007
Revenue for the financial year	199	121 385	121 584	117 563
Payments against current year appropriations	(184)	(115 366)	(115 550)	(113 028)
Payment appropriations carried over to year N+1	0	(3 912)	(3 912)	(3 114)
EFTA appropriations carried over from year N-1	(2)	0	(2)	(2)
Cancellation of unused payment appropriations carried over from year N-1	1	187	188	246
Exchange differences for the year	0	(498)	(498)	(123)
Budget Outturn	14	1 796	1 810	1 542

The budget surplus for the European Communities is returned to the Member States during the following year through deduction of their amounts due for that year.

2. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

REVENUE

Title	EUR millions						
	Original Budget	Final Budget	Entitlements established	Revenue	Difference Final-Actual	Receipts as % of budget	Outstanding
	1	2	3	4	5=2-4	6=4/2	7=3-4
1. Own resources	118 922	108 323	110 008	108 649	-326	100.30%	1 358
3. Surpluses, balances and adjustments	126	4 160	4 174	4 174	-14	100.34%	0
4. Revenue accruing from persons working with the institutions and with other Community bodies	1 029	1 029	984	977	52	94.96%	7
5. Revenue accruing from the administrative operation of the institutions	81	81	443	353	-272	435.29%	90
6. Contributions and refunds in connection with community agreements and programmes	10	356	5 967	5 564	-5 208	1 562.84%	403
7. Interest on late payments and fines	123	1 766	11 733	1 794	-28	101.61%	9 938
8. Borrowing and lending operations	26	26	61	34	-8	130.07%	27
9. Miscellaneous revenue	30	30	71	39	-9	129.19%	32
Total	120 347	115 771	133 441	121 584	-5 813	105.02%	11 856

EXPENDITURE – BY FINANCIAL FRAMEWORK HEADING

Financial Framework Heading	EUR millions						
	Original Budget	Final Budget (*)	Payments made	Difference Final-Actual	%	Appropriations carried over 2009	Appropriations lapsing
	1	2	3	4=2-3	5=3/2	6	7=2-3-6
1. Sustainable growth	50 324	47 743	45 611	2 132	95.53%	1 431	701
2. Preservation & management of natural resources	53 177	59 431	54 813	4 619	92.23%	4 361	258
3. Citizenship, freedom, security and justice	1 241	1 533	1 311	223	85.48%	91	131
4. The EU as a global partner	8 113	8 252	7 311	941	88.60%	527	414
5. Administration	7 284	8 494	7 292	1 201	85.86%	922	279
6. Compensations	207	207	207	0	100.00%	0	0
Total	120 347	125 660	116 545	9 115	92.75%	7 333	1 782

(*) including appropriations carried over and earmarked revenue

2. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

EXPENDITURE – BY POLICY AREA

Policy Area	Original Budget	Final Budget (*)	Payments made
	1	2	3
01 Economic and financial affairs	414	358	286
02 Enterprise	533	603	477
03 Competition	79	104	87
04 Employment and social affairs	11 137	9 415	9 092
05 Agriculture and rural development	52 459	58 508	53 803
06 Energy and transport	1 910	2 169	1 785
07 Environment	298	319	264
08 Research	4 112	5 146	4 439
09 Information society and media	1 549	1 890	1 708
10 Direct research	372	672	389
11 Fisheries and maritime affairs	846	932	879
12 Internal market	61	69	58
13 Regional policy	30 655	27 891	27 674
14 Taxation and customs union	108	121	105
15 Education and culture	1 345	1 555	1 378
16 Communication	197	224	186
17 Health and consumer protection	501	604	515
18 Area of freedom, security and justice	589	550	445
19 External relations	3 338	3 604	3 449
20 Trade	77	85	75
21 Development and relations with ACP States	1 179	1 401	1 229
22 Enlargement	1 832	1 642	1 555
23 Humanitarian aid	773	904	895
24 Fight against fraud	70	76	63
25 Commission's policy coordination and legal advice	178	201	177
26 Commission's administration	972	1 182	971
27 Budget	275	284	263
28 Audit	10	12	10
29 Statistics	107	130	110
30 Pensions	1 087	1 081	1 049
31 Language Services	368	462	410
40 Reserves	239	171	0
90 Other Institutions	2 674	3 298	2 717
Total	120 347	125 660	116 545

(*) including appropriations carried over and earmarked revenue

EUR millions

Difference Final-Actual	%	Appropriations carried over	Appropriations lapsing
4=2-3	5=3/2	6	7=2-3-6
72	79.85%	18	55
126	79.14%	64	61
16	84.45%	14	2
323	96.57%	26	297
4 705	91.96%	4 500	205
384	82.29%	127	257
55	82.67%	26	30
708	86.24%	686	22
181	90.41%	171	11
282	57.98%	269	13
53	94.35%	8	44
11	84.35%	8	3
217	99.22%	195	22
16	87.01%	10	5
177	88.62%	147	30
38	83.23%	18	19
89	85.32%	38	50
105	80.88%	20	85
155	95.71%	72	83
10	88.35%	7	3
172	87.74%	119	53
88	94.65%	58	30
9	99.06%	7	2
13	82.42%	6	8
24	88.05%	21	3
211	82.17%	171	40
20	92.84%	12	9
1	89.25%	1	0
21	84.07%	15	6
31	97.13%	0	31
52	88.75%	47	5
171	0.00%	0	171
581	82.38%	453	128
9 115	92.75%	7 333	1 782

3. SUMMARY OF THE IMPLEMENTATION OF BUDGET REVENUE 2008

Title	Income appropriations		Entitlements established			
	Initial	Final	Current year	Carried	Total	
1. Own resources	118 922	108 323	108 593	1 415	110 008	
3. Surpluses, balances and adjustments	126	4 160	4 175	0	4 174	
4. Revenue accruing from persons working with the institutions and with other Community bodies	1 029	1 029	975	9	984	
5. Revenue accruing from the administrative operation of the institutions	81	81	359	83	443	
6. Contributions and refunds in connection with community agreements and programmes	10	356	5 760	207	5 967	
7. Interest on late payments and fines	123	1 766	3 284	8 449	11 733	
8. Borrowing and lending operations	26	26	61	0	61	
9. Miscellaneous revenue	30	30	30	41	71	
Total	120 347	115 771	123 236	10 205	133 441	

Detail Title 1: Own resources

Chapter	Income appropriations		Entitlements established			
	Initial	Final	Current year	Carried	Total	
10. Agricultural duties	1 683	1 283	1 237	390	1 628	
11. Sugar levies	633	708	708	28	736	
12. Custom duties	16 432	14 946	15 289	989	16 278	
13. VAT	19 096	18 097	17 964	2	17 966	
14. GNI	81 078	73 290	73 008	7	73 015	
15. Correction of budgetary imbalances	0	0	387	-2	385	
Total	118 922	108 323	108 593	1 415	110 008	

Detail Title 3: Surpluses available

Chapter	Income appropriations		Entitlements established			
	Initial	Final	Current year	Carried	Total	
30. Surplus from previous year	126	1 655	1 655	0	1 655	
31. VAT surplus	0	1 043	1 042	0	1 041	
32. GNI surplus	0	1 463	1 462	0	1 462	
34. Adjustment for non-participation in JHAP	0	0	1	0	1	
35. United Kingdom correction	0	0	15	0	15	
Total	126	4 160	4 175	0	4 174	

EUR millions

Revenue			Receipts as % of budget	Outstanding
On entitlements of Current year	On entitlements Carried over	Total		
107 313	1 336	108 649	100.30%	1 358
4 174	0	4 174	100.34%	0
970	7	977	94.96%	7
330	23	353	435.29%	90
5 467	96	5 564	1 562.84%	403
146	1 648	1 794	101.61%	9 938
34	0	34	130.07%	27
26	13	39	129.19%	32
118 461	3 124	121 584	105.02%	11 856

EUR millions

Revenue			Receipts as % of budget	Outstanding
On entitlements of Current year	On entitlements Carried over	Total		
887	390	1 278	99.59%	350
680	28	708	100.01%	28
14 380	918	15 297	102.35%	980
17 966	0	17 966	99.28%	0
73 015	0	73 015	99.62%	0
385	0	385		0
107 313	1 336	108 649	100.30%	1 358

EUR millions

Revenue			Receipts as % of budget	Outstanding
On entitlements of Current year	On entitlements Carried over	Total		
1 655	0	1 655	100.00%	0
1 041	0	1 041	99.88%	0
1 462	0	1 462	99.97%	0
1	0	1		0
15	0	15		0
4 174	0	4 174	100.34%	0

4. BREAKDOWN & CHANGES IN COMMITMENT & PAYMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

Financial Framework Heading	Commitment appropriations				
	Appropriations adopted	Modifications (Transfers and AB)	Carried over	Assigned revenue	Total additional
	1	2	3	4	5=3+4
1. Sustainable growth	57 964	378	133	1 405	1 537
2. Preservation and management of natural resources	55 041	524	1 363	6 110	7 473
3. Citizenship, freedom, security and justice	1 343	283	2	95	96
4. The EU as a global partner	7 311	240	102	320	422
5. Administration	7 284	-5	119	397	516
6. Compensations	207	0	0	0	0
Total	129 150	1 420	1 719	8 326	10 045

5. IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

Financial Framework Heading	Commitment appropriations authorised	Commitments made					Assigned revenue
		From the year's appropriations	From carry-overs	From assigned revenue	Total	%	
		1	2	3	4 5=2+3+4	6=5/1	
1. Sustainable growth	59 879	57 779	133	603	58 514	97.72%	801
2. Preservation and management of natural resources	63 038	55 405	1 363	2 539	59 307	94.08%	3 571
3. Citizenship, freedom, security and justice	1 722	1 520	2	44	1 565	90.90%	51
4. The EU as a global partner	7 973	7 255	102	155	7 513	94.23%	165
5. Administration	7 795	7 096	119	212	7 427	95.27%	183
6. Compensations	207	207	0	0	207	100.00%	0
Total	140 615	129 261	1 719	3 552	134 533	95.67%	4 770

EUR millions

Total authorised	Payment appropriations					
	Appropriations adopted	Modifications (Transfers and AB)	Carried over	Assigned revenue	Total additional	Total authorised
6=1+2+5	7	8	9	10	11=9+10	12=7+8+11
59 879	50 324	-4 571	183	1 807	1 990	47 743
63 038	53 177	130	47	6 077	6 124	59 431
1 722	1 241	81	93	118	211	1 533
7 973	8 113	-212	83	268	351	8 252
7 795	7 284	-3	786	426	1 212	8 494
207	207	0	0	0	0	207
140 615	120 347	-4 575	1 193	8 696	9 889	125 660

EUR millions

Appropriations carried over to 2009			Appropriations lapsing				
Carry-overs by decision	Total	%	From the year's appropriations	From carry overs	Assigned revenue (EFTA)	Total	%
8	9=7+8	10=9/1	11	12	13	14=11+12+13	15=14/1
19	820	1.37%	544	0	1	545	0.91%
0	3 571	5.67%	160	0	0	160	0.25%
83	133	7.74%	23	0	0	23	1.36%
271	435	5.46%	25	0	0	25	0.32%
8	191	2.45%	175	0	3	177	2.28%
0	0	0.00%	0	0	0	0	0.00%
381	5 151	3.66%	927	0	3	931	0.66%

6. IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

Financial Framework Heading	Payment Appropriations authorised	Payments made					Automatic carry-overs
		From the year's appropriations	From carry-overs	From assigned revenue	Total	%	
	1	2	3	4	5=2+3+4	6=5/1	7
1. Sustainable growth	47 743	44 912	147	553	45 611	95.53%	148
2. Preservation and management of natural resources	59 431	52 230	37	2 546	54 813	92.23%	45
3. Citizenship, freedom, security and justice	1 533	1 203	59	49	1 311	85.48%	9
4. The EU as a global partner	8 252	7 125	65	120	7 311	88.60%	55
5. Administration	8 494	6 399	686	207	7 292	85.86%	694
6. Compensations	207	207	0	0	207	100.00%	0
Total	125 660	112 075	995	3 475	116 545	92.75%	951

7. MOVEMENT IN COMMITMENTS OUTSTANDING BY FINANCIAL FRAMEWORK HEADING

Financial Framework Heading	Commitments outstanding at the end of the previous year			
	Commitments carried forward from previous years	Decommitments/Revaluations/Cancellations	Payments	Commitments outstanding at year-end
1. Sustainable growth	107 519	-614	-41 378	65 526
2. Preservation and management of natural resources	9 905	-274	-5 650	3 982
3. Citizenship, freedom, security and justice	1 353	-77	-477	800
4. The EU as a global partner	19 250	-610	-5 636	13 003
5. Administration	713	-99	-583	31
6. Compensations	0	0	0	0
Total	138 740	-1 674	-53 724	83 342

EUR millions

Appropriations carried over to 2009				Appropriations lapsing				
Carry-overs by decision	Assigned revenue	Total	%	From the year's appropriations	From carry-overs	Assigned revenue (EFTA)	Total	%
8	9	10=7+8+9	11=10/1	12	13	14	15=12+13+14	16=15/1
33	1 250	1 431	3.00%	661	36	4	701	1.47%
784	3 532	4 361	7.34%	248	10	0	258	0.43%
13	69	91	5.96%	97	34	1	131	8.56%
325	147	527	6.39%	396	18	0	414	5.01%
12	217	922	10.86%	176	100	3	279	3.28%
0	0	0	0.00%	0	0	0	0	0.00%
1 168	5 214	7 333	5.84%	1 577	198	7	1 782	1.42%

EUR millions

Commitments of the year				Total Commitments outstanding at year-end
Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	
58 514	-4 233	-6	54 275	119 802
59 307	-49 163	0	10 144	14 125
1 565	-834	0	732	1 531
7 513	-1 675	-2	5 836	18 840
7 427	-6 709	-1	717	747
207	-207	0	0	0
134 533	-62 820	-9	71 704	155 045

8. BREAKDOWN OF COMMITMENTS OUTSTANDING BY THE COMMITMENT'S YEAR OF ORIGIN BY FINANCIAL FRAMEWORK HEADING

Financial Framework Heading	<2002	2002	2003	2004
1. Sustainable growth	666	527	1 045	2 113
2. Preservation & management of natural resources	95	36	41	65
3. Citizenship, freedom, security and justice	10	12	23	61
4. The EU as a global partner	933	579	735	1 148
5. Administration	1	0	0	0
Total	1 705	1 155	1 843	3 386

EUR millions

	2005	2006	2007	2008	Total
	5 461	25 078	30 637	54 275	119 802
	205	2 545	995	10 144	14 125
	92	167	435	732	1 531
	2 022	4 033	3 553	5 836	18 840
	0	0	30	717	748
	7 780	31 823	35 650	71 704	155 045

9. BREAKDOWN AND CHANGES IN COMMITMENT AND PAYMENT APPROPRIATIONS BY POLICY AREA

Policy Area	Commitment appropriations				
	Approps adopted	Modifications (Transfer/AB)	Carried over	Assigned revenue	Total additional
	1	2	3	4	5=3+4
01 Economic and financial affairs	396	-127	0	15	15
02 Enterprise	599	-3	0	63	63
03 Competition	78	14	0	3	3
04 Employment and social affairs	11 485	-452	15	13	28
05 Agriculture and rural development	53 703	369	1 409	6 089	7 498
06 Energy and transport	2 806	0	0	88	88
07 Environment	403	0	0	23	23
08 Research	4 045	3	0	599	599
09 Information society and media	1 494	-1	0	142	142
10 Direct research	361	0	0	347	347
11 Fisheries and maritime affairs	991	23	2	4	6
12 Internal market	61	0	0	2	2
13 Regional policy	35 987	1 204	134	10	144
14 Taxation and customs union	125	0	0	3	3
15 Education and culture	1 335	0	0	213	213
16 Communication	207	1	0	4	4
17 Health and consumer protection	554	130	0	20	20
18 Area of freedom, security and justice	784	2	2	17	19
19 External relations	3 974	100	2	75	76
20 Trade	78	-1	0	2	2
21 Development and relations with ACP States	1 317	259	22	161	183
22 Enlargement	1 093	28	14	82	96
23 Humanitarian aid	770	180	0	8	8
24 Fight against fraud	75	0	0	0	0
25 Commission's policy coordination and legal advice	178	1	0	7	7
26 Commission's administration	969	-8	0	89	89
27 Budget	275	-5	0	5	5
28 Audit	10	0	0	0	0
29 Statistics	127	-1	0	9	9
30 Pensions	1 087	-6	0	0	0
31 Language Services	368	-2	0	68	68
40 Reserves	739	-288	0	0	0
90 Other Institutions	2 674	0	119	162	281
Total	129 150	1 420	1 719	8 326	10 045

EUR millions

Total authorised	Payment appropriations					
	Approps adopted	Modifications (Transfer/AB)	Carried over	Assigned revenue	Total additional	Total authorised
6=1+2+5	7	8	9	10	11=9+10	12=7+8+11
284	414	-77	5	15	20	358
659	533	-22	19	72	91	603
96	79	14	7	3	11	104
11 062	11 137	-1 753	19	12	31	9 415
61 570	52 459	-75	61	6 062	6 123	58 508
2 894	1 910	56	67	135	202	2 169
426	298	-13	16	18	34	319
4 647	4 112	104	43	887	930	5 146
1 635	1 549	63	14	263	277	1 890
708	372	-10	34	275	309	672
1 021	846	71	9	5	15	932
64	61	0	6	2	8	69
37 335	30 655	-2 780	13	3	16	27 891
128	108	3	6	3	10	121
1 548	1 345	-49	17	241	259	1 555
211	197	3	19	4	23	224
703	501	50	26	27	53	604
805	589	-146	90	16	106	550
4 151	3 338	161	45	60	105	3 604
80	77	0	5	2	8	85
1 759	1 179	39	31	152	183	1 401
1 217	1 832	-255	11	54	65	1 642
958	773	116	6	8	14	904
74	70	1	6	0	6	76
186	178	1	15	7	22	201
1 051	972	-2	120	91	211	1 182
275	275	-5	9	5	14	284
11	10	0	1	0	1	12
135	107	3	7	13	20	130
1 081	1 087	-6	0	0	0	1 081
435	368	-2	28	68	96	462
452	239	-68	0	0	0	171
2 955	2 674	0	434	190	624	3 298
140 615	120 347	-4 575	1 193	8 696	9 889	125 660

10. IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY POLICY AREA

Policy Area	Commitment appropriations authorised	Commitments made					
		From the year's approps	From carry-overs	Assigned revenue	Total	%	
	I	2	3	4	5=2+3+4	6=5/I	
01 Economic and financial affairs	284	265	0	14	279	98.05%	
02 Enterprise	659	588	0	32	620	94.08%	
03 Competition	96	92	0	2	94	97.78%	
04 Employment and social affairs	11 062	11 009	15	5	11 030	99.71%	
05 Agriculture and rural development	61 570	53 962	1 409	2 534	57 905	94.05%	
06 Energy and transport	2 894	2 796	0	34	2 830	97.79%	
07 Environment	426	389	0	5	394	92.58%	
08 Research	4 647	4 043	0	313	4 355	93.73%	
09 Information society and media	1 635	1 489	0	80	1 569	95.96%	
10 Direct research	708	355	0	48	403	56.94%	
11 Fisheries and maritime affairs	1 021	971	2	1	975	95.46%	
12 Internal market	64	61	0	1	63	98.08%	
13 Regional policy	37 335	37 148	134	9	37 291	99.88%	
14 Taxation and customs union	128	118	0	2	119	93.07%	
15 Education and culture	1 548	1 328	0	104	1 432	92.52%	
16 Communication	211	204	0	2	207	97.97%	
17 Health and consumer protection	703	678	0	12	690	98.15%	
18 Area of freedom, security and justice	805	695	2	8	704	87.51%	
19 External relations	4 151	4 043	2	45	4 090	98.54%	
20 Trade	80	75	0	1	76	94.91%	
21 Development & relations with ACP States	1 759	1 308	22	73	1 403	79.75%	
22 Enlargement	1 217	1 114	14	37	1 164	95.66%	
23 Humanitarian aid	958	950	0	6	956	99.72%	
24 Fight against fraud	74	72	0	0	73	97.41%	
25 Commission's policy coordination and legal advice	186	176	0	4	180	97.12%	
26 Commission's administration	1 051	942	0	46	988	93.96%	
27 Budget	275	262	0	3	266	96.65%	
28 Audit	11	10	0	0	10	95.39%	
29 Statistics	135	119	0	6	125	92.47%	
30 Pensions	1 081	1 049	0	0	1 049	97.13%	
31 Language Services	435	364	0	45	408	93.92%	
40 Reserves	452	0	0	0	0	0.00%	
90 Other Institutions	2 955	2 584	119	81	2 784	94.24%	
Total	140 615	129 261	1 719	3 552	134 533	95.67%	

EUR millions

Appropriations carried over to 2009					Appropriations lapsing				
Assigned revenue	Carry-overs: decision	Total	%		From the year's approps	From carry-overs	Assigned revenue (EFTA)	Total	%
7	8	9=7+8	10=9/1		11	12	13=11+12+13	15=14/1	
1	0	1	0.46%		4	0	0	4	1.49%
31	0	31	4.72%		8	0	0	8	1.20%
2	0	2	1.60%		1	0	0	1	0.62%
7	2	9	0.08%		22	0	0	23	0.21%
3 555	0	3 555	5.77%		109	0	0	109	0.18%
54	1	55	1.89%		9	0	0	9	0.32%
17	0	17	4.10%		14	0	0	14	3.32%
287	0	287	6.17%		5	0	0	5	0.10%
62	0	62	3.82%		3	0	0	4	0.22%
299	0	299	42.18%		6	0	0	6	0.88%
3	0	4	0.35%		43	0	0	43	4.19%
1	0	1	1.51%		0	0	0	0	0.41%
1	24	25	0.07%		19	0	0	19	0.05%
2	0	2	1.37%		7	0	0	7	5.56%
109	0	109	7.04%		6	0	1	7	0.44%
1	0	1	0.61%		3	0	0	3	1.42%
8	0	8	1.13%		5	0	0	5	0.72%
9	75	84	10.47%		16	0	0	16	2.02%
29	0	29	0.71%		31	0	0	31	0.75%
1	0	1	1.37%		3	0	0	3	3.72%
88	265	353	20.04%		4	0	0	4	0.21%
45	6	51	4.19%		2	0	0	2	0.16%
2	0	2	0.22%		1	0	0	1	0.07%
0	0	0	0.04%		2	0	0	2	2.55%
3	0	3	1.76%		2	0	0	2	1.11%
42	0	42	4.04%		20	0	1	21	2.00%
1	0	1	0.50%		8	0	0	8	2.86%
0	0	0	2.60%		0	0	0	0	2.01%
3	0	3	1.92%		7	0	0	8	5.62%
0	0	0	0.00%		31	0	0	31	2.87%
24	0	24	5.45%		3	0	0	3	0.62%
0	0	0	0.00%		452	0	0	452	100.0%
81	8	89	3.02%		81	0	0	81	2.74%
4 770	381	5 151	3.66%		927	0	3	931	0.66%

II. IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY POLICY AREA

Policy Area	Payment Appropriations authorised	Payments made					Automatic carry-overs
		From the year's approps	From carry-overs	Assigned revenue	Total	%	
	1	2	3	4	5=2+3+4	6=5/1	7
01 Economic and financial affairs	358	268	5	13	286	79.85%	6
02 Enterprise	603	438	13	27	477	79.14%	20
03 Competition	104	80	7	1	87	84.45%	9
04 Employment and social affairs	9 415	9 074	13	4	9 092	96.57%	18
05 Agriculture and rural development	58 508	51 215	55	2 533	53 803	91.96%	25
06 Energy and transport	2 169	1 695	60	29	1 785	82.29%	22
07 Environment	319	238	15	11	264	82.67%	17
08 Research	5 146	4 161	29	248	4 439	86.24%	47
09 Information society and media	1 890	1 589	12	108	1 708	90.41%	16
10 Direct research	672	316	31	43	389	57.98%	36
11 Fisheries and maritime affairs	932	874	4	1	879	94.35%	3
12 Internal market	69	53	5	1	58	84.35%	7
13 Regional policy	27 891	27 664	9	1	27 674	99.22%	14
14 Taxation and customs union	121	98	5	2	105	87.01%	7
15 Education and culture	1 555	1 253	15	110	1 378	88.62%	16
16 Communication	224	169	15	2	186	83.23%	17
17 Health and consumer protection	604	472	24	19	515	85.32%	30
18 Area of freedom, security and justice	550	377	57	11	445	80.88%	8
19 External relations	3 604	3 378	33	38	3 449	95.71%	48
20 Trade	85	69	5	1	75	88.35%	6
21 Development and relations with ACP States	1 401	1 141	22	66	1 229	87.74%	32
22 Enlargement	1 642	1 534	8	13	1 555	94.65%	17
23 Humanitarian aid	904	883	5	7	895	99.06%	6
24 Fight against fraud	76	59	4	0	63	82.42%	6
25 Commission's policy coordination and legal advice	201	159	14	3	177	88.05%	17
26 Commission's administration	1 182	830	105	36	971	82.17%	113
27 Budget	284	253	8	2	263	92.84%	9
28 Audit	12	9	1	0	10	89.25%	1
29 Statistics	130	99	6	4	110	84.07%	7
30 Pensions	1 081	1 049	0	0	1 049	97.13%	0
31 Language Services	462	343	26	41	410	88.75%	20
40 Reserves	171	0	0	0	0	0.00%	0
90 Other Institutions	3 298	2 231	387	98	2 717	82.38%	353
Total	125 660	112 075	995	3 475	116 545	92.75%	951

EUR millions

Appropriations carried over to 2009				Appropriations lapsing				
Carry-overs by decision	Assigned revenue	Total	%	From the year's approps	From carry-overs	Assigned revenue (EFTA)	Total	%
8	9	10=7+8+9	11=10/1	12	13	14	15=12+13+14	16=15/1
10	2	18	4.89%	54	0	0	55	15.26%
0	45	64	10.69%	54	6	1	61	10.17%
4	2	14	13.92%	1	1	0	2	1.63%
0	7	26	0.27%	291	6	0	297	3.16%
946	3 529	4 500	7.69%	199	6	0	205	0.35%
1	103	127	5.84%	247	8	2	257	11.87%
3	6	26	8.08%	28	2	0	30	9.25%
0	639	686	13.33%	8	14	0	22	0.42%
0	155	171	9.03%	8	3	0	11	0.56%
1	232	269	40.06%	10	3	0	13	1.97%
1	4	8	0.89%	39	6	0	44	4.76%
0	1	8	11.66%	2	1	0	3	3.99%
180	2	195	0.70%	18	4	0	22	0.08%
2	2	10	8.49%	5	1	0	5	4.50%
0	131	147	9.47%	26	3	1	30	1.91%
0	1	18	8.25%	14	5	0	19	8.51%
0	8	38	6.32%	48	2	0	50	8.36%
6	6	20	3.62%	52	33	0	85	15.50%
2	22	72	1.99%	70	13	0	83	2.30%
0	1	7	8.42%	2	1	0	3	3.23%
0	86	119	8.46%	44	9	0	53	3.80%
0	40	58	3.50%	27	4	0	30	1.85%
0	1	7	0.75%	1	1	0	2	0.19%
0	0	6	7.73%	6	2	0	8	9.85%
0	4	21	10.44%	2	1	0	3	1.51%
4	54	171	14.48%	24	15	1	40	3.35%
0	2	12	4.11%	8	1	0	9	3.05%
0	0	1	7.97%	0	0	0	0	2.77%
0	8	15	11.16%	5	1	0	6	4.77%
0	0	0	0.00%	31	0	0	31	2.87%
0	27	47	10.25%	3	2	0	5	1.01%
0	0	0	0.00%	171	0	0	171	100.00%
8	92	453	13.74%	81	47	0	128	3.88%
1 168	5 214	7 333	5.84%	1 577	198	7	1 782	1.42%

12. MOVEMENT IN COMMITMENTS OUTSTANDING BY POLICY AREA

Policy Area	Commitments outstanding at the end of the previous year				
	Commitments carried forward from previous years	Decommitments/ Revaluations/ Cancellations	Payments	Commitments outstanding at year-end	
01 Economic and financial affairs	344	-8	-63	272	
02 Enterprise	537	-27	-214	297	
03 Competition	8	-1	-7	0	
04 Employment and social affairs	22 299	-154	-8 861	13 285	
05 Agriculture and rural development	8 491	-185	-4 962	3 344	
06 Energy and transport	3 303	-48	-1 098	2 157	
07 Environment	580	-28	-149	404	
08 Research	8 443	-107	-3 553	4 783	
09 Information society and media	2 440	-45	-1 081	1 314	
10 Direct research	140	-8	-89	43	
11 Fisheries and maritime affairs	1 324	-73	-531	721	
12 Internal market	15	-3	-10	3	
13 Regional policy	72 250	-192	-26 817	45 242	
14 Taxation and customs union	80	-4	-41	34	
15 Education and culture	571	-60	-252	259	
16 Communication	79	-11	-57	11	
17 Health and consumer protection	444	-4	-245	194	
18 Area of freedom, security and justice	629	-24	-216	389	
19 External relations	8 358	-213	-2 491	5 653	
20 Trade	22	-2	-14	6	
21 Development/relations ACP States	2 718	-75	-762	1 882	
22 Enlargement	4 604	-308	-1 462	2 834	
23 Humanitarian aid	383	-21	-248	113	
24 Fight against fraud	24	-5	-11	8	
25 Commission's policy coordination & legal advice	19	-1	-17	1	
26 Commission's administration	172	-16	-134	22	
27 Budget	9	-1	-8	0	
28 Audit	1	0	-1	0	
29 Statistics	81	-4	-34	43	
30 Pensions	0	0	0	0	
31 Language Services	27	-2	-26	0	
90 Other Institutions	343	-45	-270	28	
Total	138 740	-1 674	-53 724	83 342	

EUR millions

Commitments of the year				
Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	Total Commitments outstanding at year-end
279	-223	0	56	329
620	-264	0	357	653
94	-81	0	13	13
11 030	-231	0	10 798	24 082
57 905	-48 841	0	9 064	12 408
2 830	-686	0	2 144	4 301
394	-115	0	279	683
4 355	-885	-2	3 468	8 251
1 569	-627	0	941	2 255
403	-301	0	102	146
975	-348	0	626	1 347
63	-49	0	14	17
37 291	-857	-2	36 432	81 673
119	-64	0	55	90
1 432	-1 126	0	306	565
207	-130	0	77	88
690	-270	0	421	614
704	-229	0	476	865
4 090	-958	-1	3 132	8 785
76	-61	0	15	21
1 403	-467	0	936	2 818
1 164	-92	-2	1 071	3 905
956	-647	0	309	422
73	-51	0	21	29
180	-160	0	20	21
988	-837	-1	150	172
266	-255	0	10	10
10	-10	0	1	1
125	-75	0	50	92
1 049	-1 049	0	0	0
408	-385	0	24	24
2 784	-2 446	0	338	366
134 533	-62 820	-9	71 704	155 045

13. BREAKDOWN OF COMMITMENTS OUTSTANDING BY THE COMMITMENT'S YEAR OF ORIGIN BY POLICY AREA

Policy Area	<2002	2002	2003
01 Economic and financial affairs	1	0	0
02 Enterprise	10	6	15
03 Competition	0	0	0
04 Employment and social affairs	176	55	89
05 Agriculture and rural development	51	1	0
06 Energy and transport	87	47	58
07 Environment	3	4	18
08 Research	70	80	337
09 Information society and media	2	3	29
10 Direct research	1	1	2
11 Fisheries and maritime affairs	42	34	28
12 Internal market	0	0	0
13 Regional policy	429	445	841
14 Taxation and customs union	0	0	1
15 Education and culture	14	4	11
16 Communication	0	0	0
17 Health and consumer protection	1	3	9
18 Area of freedom, security and justice	1	5	6
19 External relations	463	319	224
20 Trade	0	0	0
21 Development and relations with ACP States	127	78	87
22 Enlargement	226	68	88
23 Humanitarian aid	2	0	0
24 Fight against fraud	0	0	0
25 Commission's policy coordination & legal advice	0	0	0
26 Commission's administration	0	0	0
27 Budget	0	0	0
28 Audit	0	0	0
29 Statistics	0	1	0
30 Pensions	0	0	0
31 Language Services	0	0	0
90 Other Institutions	0	0	0
Total	1 705	1 155	1 843

EUR millions

2004	2005	2006	2007	2008	Total
23	41	122	85	56	329
13	36	68	148	357	653
0	0	0	0	13	13
71	651	5 510	6 732	10 798	24 082
30	260	2 343	658	9 064	12 408
159	346	503	958	2 144	4 301
41	62	92	183	279	683
433	875	1 479	1 510	3 468	8 251
60	230	365	625	941	2 255
0	6	12	22	102	146
25	84	413	95	626	1 347
0	0	0	3	14	17
1 663	3 609	17 561	20 693	36 432	81 673
0	2	10	21	55	90
14	41	67	108	306	565
0	0	2	9	77	88
18	8	53	102	421	614
15	50	59	253	476	865
508	730	1 457	1 952	3 132	8 785
0	0	1	5	15	21
156	337	496	602	936	2 818
155	401	1 182	715	1 071	3 905
0	4	13	95	309	422
0	0	1	7	21	29
0	0	0	0	20	21
0	1	2	19	150	172
0	0	0	0	10	10
0	0	0	0	1	1
2	6	11	23	50	92
0	0	0	0	0	0
0	0	0	0	24	24
0	0	0	28	338	366
3 386	7 780	31 823	35 650	71 704	155 045

14. SUMMARY OF THE IMPLEMENTATION OF BUDGET REVENUE BY INSTITUTION

Institution	Income appropriations			
	Initial	Final	Current year	Carried
European Parliament	103	103	164	74
Council	50	50	103	5
Commission	120 123	115 547	122 869	10 125
Court of Justice	37	37	39	0
Court of Auditors	18	18	18	1
Economic and Social Committee	10	10	14	0
Committee of the Regions	5	5	29	0
Ombudsman	1	1	1	0
European Data protection Supervisor	1	1	0	0
Total	120 347	115 771	123 236	10 205

EUR millions

Entitlements established	Revenue			Receipts as % of budget	Outstanding
	Total	On entitlements of Current year	On entitlements Carried		
237	146	5	151	147.14%	86
108	92	4	96	190.63%	12
132 993	118 122	3 114	121 236	104.92%	11 758
39	39	0	39	106.81%	0
18	17	0	18	99.93%	1
14	14	0	14	149.16%	0
29	29	0	29	528.98%	0
1	1	0	1	94.96%	0
0	0	0	0	76.94%	0
133 441	118 461	3 124	121 584	105.02%	11 856

15. IMPLEMENTATION OF COMMITMENT AND PAYMENT APPROPRIATIONS BY INSTITUTION

COMMITMENT APPROPRIATIONS

Institution	Commitment appropriations authorised	Commitments made					
		From the year's approps	From carry-overs	From assigned revenue	Total	%	
	I	2	3	4	5=2+3+4	6=5/I	
European Parliament	1 556	1 402	44	26	1 472	94.60%	
Council	743	580	75	39	694	93.34%	
Commission	137 660	126 677	1 600	3 471	131 748	95.71%	
Court of Justice	297	290	0	1	291	98.20%	
Court of Auditors	133	121	0	0	121	90.66%	
Economic and Social Committee	118	110	0	4	113	95.64%	
Committee of the Regions	93	70	0	11	81	86.87%	
Ombudsman	9	8	0	0	8	91.51%	
European Data protection Supervisor	5	5	0	0	5	86.14%	
Total	140 615	129 261	1 719	3 552	134 533	95.67%	

PAYMENT APPROPRIATIONS

Institution	Payment appropriations authorised	Payments made					
		From the year's approps	From carry-overs	From assigned revenue	Total	%	
	I	2	3	4	5=2+3+4	6=5/I	
European Parliament	1 807	1 206	237	46	1 489	82.37%	
Council	798	463	120	35	618	77.41%	
Commission	122 362	109 844	607	3 377	113 828	93.03%	
Court of Justice	310	276	12	1	288	93.19%	
Court of Auditors	142	108	8	0	116	81.94%	
Economic and Social Committee	126	104	5	4	114	90.74%	
Committee of the Regions	99	63	4	11	79	79.38%	
Ombudsman	9	7	0	0	8	84.62%	
European Data protection Supervisor	6	4	1	0	4	68.12%	
Total	125 660	112 075	995	3 475	116 545	92.75%	

EUR millions

Appropriations carried over to 2009					Appropriations lapsing				
From assigned revenue	Carry-overs by decision	Total	%		From the year's approps	Appropriations carried over	Assigned revenue (EFTA)	Total	%
7	8	9=7+8	10=9/1		11	12	13	14=11+12+13	15=14/1
34	8	42	2.69%		42	0	0	42	2.71%
35	0	35	4.65%		15	0	0	15	2.01%
4 689	373	5 062	3.68%		846	0	3	850	0.62%
2	0	2	0.56%		4	0	0	4	1.24%
0	0	0	0.23%		12	0	0	12	9.10%
0	0	0	0.23%		5	0	0	5	4.13%
11	0	11	11.54%		1	0	0	1	1.59%
0	0	0	0.00%		1	0	0	1	8.49%
0	0	0	0.00%		1	0	0	1	13.86%
4 770	381	5 151	3.66%		927	0	3	931	0.66%

EUR millions

Appropriations carried over to 2009					Appropriations lapsing				
Auto-matic carry-overs	Carry-overs by decision	From assigned revenue	Total	%	From the year's approps	From carry-overs	Assigned revenue (EFTA)	Total	%
7	8	9	10=7+8+9	11=10/1	12	13	14	15=12+13+14	16=15/1
196	8	40	245	13.53%	42	32	0	74	4.10%
117	0	38	155	19.38%	15	11	0	26	3.22%
598	1 159	5 122	6 880	5.62%	1 496	151	7	1 654	1.35%
15	0	2	16	5.25%	4	1	0	5	1.55%
12	0	0	13	8.89%	12	1	0	13	9.16%
5	0	1	6	4.70%	5	1	0	6	4.56%
7	0	11	18	17.72%	1	1	0	3	2.90%
1	0	0	1	6.66%	1	0	0	1	8.72%
1	0	0	1	14.32%	1	0	0	1	17.56%
951	1 168	5 214	7 333	5.84%	1 577	198	7	1 782	1.42%

16. AGENCIES INCOME: BUDGET FORECASTS, ENTITLEMENTS AND AMOUNTS RECEIVED

Agency	Forecasted income budget
European Aviation Safety Agency	102
Frontex	71
European Centre for the Development of Vocational Training	18
European Police College	10
European Chemicals Agency	66
European Centre for Disease prevention and control	41
European Monitoring Centre for Drugs and Drug Addiction	15
European Environment Agency	37
Community Fisheries Control Agency	9
European Food Safety Authority	66
European GNSS supervisory authority	125
Fusion for Energy	192
Eurojust	25
European Maritime Safety Agency	50
Office For Harmonisation in the Internal Market	318
European Medicines Agency	183
European Network and Information Security Agency	8
European Union Agency for Fundamental Rights	15
European Railway Agency	18
European Agency for Reconstruction	236
European Agency for Safety and Health at Work	15
Translation Centre for the Bodies of the EU	60
European Training Foundation	19
Community Plant Variety Office	10
European Foundation for the Improvement of Living and Working Conditions	21
Education, Audiovisual & Culture Executive Agency	38
Executive Agency for Competitiveness and Innovation	11
Executive Agency for the Public Health Programme	4
Trans-European Transport Network Executive Agency	5
Total	1 791

Type of revenue	Forecasted income budget
Commission Subsidy	1 117
Fee income	373
Other income	301
Total	1 791

EUR millions

Entitlements established	Amounts received	Outstanding	Funding Commission Policy Area
110	101	9	06
47	46	0	18
18	18	0	15
5	5	0	18
63	63	0	02
37	37	0	17
15	15	0	18
37	36	1	07
9	9	0	11
66	66	0	17
114	114	0	06
150	150	0	08
25	25	0	18
38	38	0	06
217	217	0	12
198	188	10	02
8	8	0	09
15	15	0	18
17	17	0	06
135	135	0	22
14	14	0	04
54	47	7	31
19	19	0	15
11	11	0	17
20	20	0	04
38	38	0	15
11	11	0	06
4	4	0	17
5	5	0	06
I 502	I 474	29	

EUR millions

Entitlements established	Amounts received	Outstanding
934	934	1
421	405	16
147	135	12
I 502	I 474	29

17. AGENCIES: COMMITMENT AND PAYMENT APPROPRIATIONS BY AGENCY

Agency	Commitment appropriations				
	Appropriations	Commitments made	Carried to 2009	Amounts Lapsing	
European Aviation Safety Agency	118	87	30	1	
Frontex	72	65	1	5	
European Centre for the Development of Vocational Training	20	18	1	0	
European Police College	15	10	3	2	
European Chemicals Agency	70	55	0	15	
European Centre for Disease prevention and control	41	39	0	1	
European Monitoring Centre for Drugs and Drug Addiction	16	15	1	0	
European Environment Agency	41	41	0	0	
Community Fisheries Control Agency	11	9	0	2	
European Food Safety Authority	66	64	0	2	
European GNSS supervisory authority	221	158	63	1	
Fusion for Energy	193	187	1	5	
Eurojust	26	25	0	1	
European Maritime Safety Agency	50	47	0	4	
Office For Harmonisation in the Internal Market	318	143	0	175	
European Medicines Agency	183	173	0	10	
European Network and Information Security Agency	8	8	0	0	
European Union Agency for Fundamental Rights	15	15	0	1	
European Railway Agency	18	17	0	1	
European Agency for Reconstruction	475	128	345	2	
European Agency for Safety and Health at Work	15	14	0	1	
Translation Centre for the Bodies of the EU	42	33	0	8	
European Training Foundation	21	19	1	0	
Community Plant Variety Office	13	12	0	1	
European Foundation for the Improvement of Living and Working Conditions	21	20	0	1	
Education, Audiovisual & Culture Executive Agency	38	38	0	1	
Executive Agency for Competitiveness and Innovation	11	11	0	0	
Executive Agency for the Public Health Programme	4	4	0	0	
Trans-European Transport Network Executive Agency	5	5	0	1	
Total	2 150	1 459	449	242	

Type of expenditure	Commitment appropriations				
	Appropriations	Commitments made	Carried to 2009	Amounts lapsing	
Administrative expenses	229	209	2	19	
Operational expenses	1 440	807	447	186	
Staff	480	443	0	37	
Total	2 150	1 459	449	242	

EUR millions

Payment appropriations			
Appropriations	Payments made	Carried to 2009	Amounts Lapsing
138	78	57	4
94	50	30	13
21	16	4	0
14	8	5	2
70	40	13	17
52	33	16	3
17	15	2	0
46	38	7	1
12	8	1	2
75	55	16	4
200	144	54	2
150	92	32	26
30	25	3	2
52	39	3	10
347	140	29	179
215	168	36	11
10	8	2	1
23	15	7	1
21	15	4	1
476	158	298	20
18	13	4	1
37	34	4	0
24	20	3	1
14	12	1	1
26	19	6	1
45	38	6	1
14	11	1	1
6	4	1	1
5	3	1	1
2 251	1 298	646	308

Payment appropriations			
Appropriations	Payments made	Carried to 2009	Amounts lapsing
285	182	80	23
1 481	684	550	247
485	432	15	38
2 251	1 298	646	308

18. BUDGET OUTTURN INCLUDING AGENCIES*EUR millions*

	EUROPEAN COMMUNITIES	AGENCIES	Elimination of subsidies to agencies	Total
Revenue for the financial year	121 584	1 474	(934)	122 125
Payments against current year appropriations	(115 550)	(1 146)	934	(115 762)
Payment appropriations carried over to year N+1	(3 912)	(646)	0	(4 558)
EFTA appropriations carried over from year N-1	(2)	0	0	(2)
Cancellation of unused payment appropriations carried over from year N-1	188	445	0	632
Exchange differences for the year	(498)	(2)	0	(500)
Budget Outturn	1 810	125	0	1 935

PART II

Explanatory notes to the consolidated reports on implementation of the budget

- 1. Budgetary principles,
structures and appropriations**
- 2. Explanation of the reports
on the implementation
of the budget**

I. BUDGETARY PRINCIPLES, STRUCTURES AND APPROPRIATIONS

I.1 LEGAL BASIS AND THE FINANCIAL REGULATION

The budgetary accounts are kept in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248 of 16 September 2002, p. 1, last amended by Council Regulation (EC, Euratom) No 1995/2006 of 13 December 2006, OJ L390 of 30 December 2006) on the Financial Regulation applicable to the general budget of the European Communities and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of this Financial Regulation, last modified on 28 March 2007. The general budget, the main instrument of the Communities' financial policy, is the instrument which provides for and authorises the Communities' revenue and expenditure every year.

The budgetary procedure is set out in Article 272 of the EC Treaty which stipulates the sequence of stages and the time-limits which must be respected by the two arms of the budgetary authority: the Council and Parliament. Every year, the Commission estimates all the European Institutions' revenue and expenditure for the coming year and draws up a preliminary draft budget which it sends to the budgetary authority. On the basis of this preliminary draft budget, the Council draws up a draft budget which is then the subject of negotiations between the two arms of the budgetary authority. The President of Parliament declares that the budget has been finally adopted making the budget enforceable. The task of executing the budget is mainly the responsibility of the Commission.

I.2 BUDGETARY PRINCIPLES

The general budget of the Communities is governed by a number of basic principles:

- **unity and budget accuracy:** all Communities' expenditure and revenue must be incorporated in a single budget document, must be booked on a budget line and expenditure must not exceed authorised appropriations;
- **universality:** this principle comprises two rules:
 - the rule of non-assignment, meaning that budget revenue must not be earmarked for specific items of expenditure (total revenue must cover total expenditure);
 - the gross budget rule, meaning that revenue and expenditure are entered in full in the budget without any adjustment against each other;
- **annuality:** the appropriations entered are authorised for a single year and must therefore be used during that year;
- **equilibrium:** the revenue and expenditure shown in the budget must be in balance (estimated revenue must equal payment appropriations);

- **specification:** each appropriation is assigned to a specific purpose and a specific objective;
- **unit of account:** the budget is drawn up and implemented in euros and the accounts are presented in euros;
- **sound financial management:** budget appropriations are used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness;
- **transparency:** the budget is established and implemented and the accounts presented in compliance with the principle of transparency - the budget and amending budgets are published in the Official Journal of the European Union.

1.3 BUDGET STRUCTURE

The budget consists of:

- (a) a general statement of revenue;
- (b) separate sections divided into the statements of revenue and expenditure of each Institution: Section I: Parliament; Section II: Council; Section III: Commission; Section IV: Court of Justice; Section V: Court of Auditors; Section VI: Economic and Social Committee; Section VII: Committee of the Regions; Section VIII: Ombudsman; Section IX: European Data Protection Supervisor.

Each Institution's items of revenue and expenditure are classified according to their type or the use to which they are assigned under titles, chapters, articles and items.

A part of the funds of the ECSC in liquidation were placed at the disposal of the operational budget of the ECSC in liquidation. This operational budget was adopted annually by the Commission, after consultation with the Council and the European Parliament. The last budget was drawn up for the period of 1st January to 23 July 2002. As from 24 July 2002, the revenue and charges connected with the operational budget are included in the revenue and expenditure account of the ECSC in liquidation. The remaining commitments to be fulfilled are shown on the liability side of the balance sheet.

1.4 STRUCTURE OF THE BUDGETARY ACCOUNTS

1.4.1 General overview

Only the Commission budget contains administrative appropriations and operating appropriations. The other Institutions have only administrative appropriations.

The budget distinguishes between two types of appropriation: non-differentiated appropriations and differentiated appropriations. Non-differentiated appropriations are used to finance operations of an annual nature (which comply with the principle of annuality). Differentiated appropriations were introduced in order to reconcile the principle of annuality with the need to manage multi-annual operations.

a) **Non-differentiated appropriations** cover:

- all the administrative chapters of the budget of the Commission Section and the whole of every other section;
- EAGGF Guarantee appropriations of an annual nature; and
- certain technical appropriations (repayments, borrowing and lending guarantees, etc.)

In the case of non-differentiated appropriations, the amount of commitment appropriations is the same as that of payment appropriations.

b) **Differentiated appropriations** are intended to cover multi-annual operations and comprise all the other appropriations in all Chapters except Chapter I of the Commission Section.

These differentiated appropriations break down into commitment appropriations and payment appropriations:

- **commitment appropriations:** cover the total cost of the legal obligations entered into for the current financial year for operations extending over a number of years. However, budgetary commitments for actions extending over more than one financial year may, in accordance with Article 76(3) of the Financial Regulation, be broken down over several years into annual instalments where the basic act so provides. For the differentiated appropriations, budget commitments not yet made for future years are shown as a contingent liability in the off balance sheet.
- **payment appropriations:** cover expenditure arising from commitments entered into in the current financial year and/or earlier financial years.

1.4.2 *Origin of Appropriations*

The main source of appropriations is the Communities' budget for the current year. However, there are other types of appropriations resulting from the provisions of the Financial Regulation. They come from previous financial years or outside sources.

1.4.2.1 *Final Budget Appropriations comprising:*

- Initial budget appropriations adopted
- Transfers: Appropriations may be transferred between lines in accordance with the rules laid down in Articles 22 to 24 of the Financial Regulation (No 1605/2002 of 25 June 2002).
- Amending budgets: The budget adopted may be amended or increased by an amending budget. The rules are set out in Articles 37 and 38 of the Financial Regulation.

1.4.2.2 Appropriations carried over from previous year or made available again

- Appropriations automatically carried over: These are non-differentiated payment appropriations which may be carried over automatically for one financial year only (no limits for the ECSC in liquidation) in accordance with Article 9(4) of the Financial Regulation.
- Appropriations carried over by decision of the Institutions: An Institution may decide to carry over appropriations from the previous budget in one of two cases: if the preparatory stages have been completed (Article 9(2)(a) of the Financial Regulation) or if the legal base is adopted late (Article 9(2)(b)). Both commitment and payment appropriations may be carried over (Article 9(3)).
- Appropriations made available again as a result of decommitments: This involves the re-entry of commitment appropriations concerning structural funds which have been decommitted. Amounts can be re-entered by way of exception in the event of error by the Commission or if they are indispensable for completion of the programme (Article 157 of the Financial Regulation).

1.4.2.3 Assigned revenue

- Refunds: These appropriations arise from the refund of amounts paid in error, proceeds from the supply of goods/services to other Communities' bodies, insurance payments received and revenue from lettings and publication sales – the amounts are assigned revenue on the budget line which incurred the initial expenditure, (Financial Regulation Article 10 and Article 18(1)(e), (f), (g), (h), (i), and (j)), and may be carried over without limit.
- EFTA appropriations: The agreement on the European Economic Area provides for financial contribution by its members to certain activities in the Communities' budget. The budget lines concerned and the amounts projected are published in Annex III of the Communities' budget. The lines concerned are increased by the EFTA contribution. Appropriations not used at the year-end are cancelled and returned to the EEA countries.
- Revenue from third parties: As with the EFTA appropriations other countries have concluded agreements with the European Communities involving a financial contribution to Communities' activities. The amounts received are considered to be revenue from third parties which is allocated to the budget lines concerned (often in the field of research) and may be carried over without limit (Article 10 and Article 18(1)(a) and (d) of the Financial Regulation).
- Work for third parties: As part of their research activities, the Communities' research centres may work for outside bodies, (Article 161(2) of the Financial Regulation). Like the revenue from third parties, the work for third parties is assigned to specific budget lines and may be carried over without limit (Article 10 and Article 18(1)(d) of the Financial Regulation).
- Appropriations made available again as a result of repayment of payments on account: These are Communities' funds which have been repaid by the beneficiaries. Repayments of payments on account are entered as assigned revenue (Articles 10 and 18(2) of the Financial Regulation) and may be carried over without limit. In the area of Structural Funds the re-inscription is based on a Commission Decision (Article 18(2) of the Financial Regulation and Article 228 of its Implementing Rules).

1.4.3 Composition of Appropriations Available

- *Final budget appropriations* = initial budget appropriations adopted + amending budget appropriations + transfers;
- *Additional appropriations* = assigned revenue (see above) + appropriations carried over from the previous financial year or made available again following decommitments;
- *Total appropriations authorised* = final budget appropriations + additional appropriations;
- *Appropriations for the year (as used to calculate the budgetary result)* = final budget appropriations + assigned revenue.

1.5 BUDGET IMPLEMENTATION

The implementation of the budget is governed by the Financial Regulation, Article 48(1) of which states: “The Commission shall implement ... the budget in accordance with this Regulation, on its own responsibility and within the limits of the appropriations authorised.” Article 50 states that the Commission shall confer on the Institutions the requisite powers for the implementation of the sections of the budget relating to them.

1.6 OUTSTANDING COMMITMENTS (RAL)

With the introduction of differentiated appropriations, a gap developed between commitments entered into and payments made: this gap, corresponding to outstanding commitments, represents the time-lag between when the commitments are entered into and when the corresponding payments are made.

2. EXPLANATION OF THE REPORTS ON THE IMPLEMENTATION OF THE BUDGET

2.1 BUDGET OUTTURN FOR THE YEAR (TABLE 1)

2.1.1 General

The amounts of own resources entered in the accounts are those credited in the course of the year to the accounts opened in the Commission's name by the governments of the Member States. Revenue comprises also, in the case of a surplus, the budget outturn for the previous financial year. The other revenue entered in the accounts is the amount actually received in the course of the year.

For the purposes of calculating the budget outturn for the year, expenditure comprises payments made against the year's appropriations for payments plus any of the appropriations for that year that are carried over to the following year. Payments made against the year's appropriations for payments means payments that are made by the accounting officer by 31 December of the financial year. In the case of the European Agricultural Guarantee Fund, the payments are those effected by the Member States between 16 October 2007 and 15 October 2008, provided that the accounting officer was notified of the commitment and authorisation by 31 January 2009. EAGF expenditure may be subject to a conformity decision following controls in the Member States.

The budget outturn comprises two elements: the result of the European Communities and the result of the participation of the EFTA countries belonging to the EEA. In accordance with Article 15 of Regulation No 1150/2000 on own resources, this outturn represents the difference between:

- total revenue received for that year;
- and total payments made against that year's appropriations plus the total amount of that year's appropriations carried over to the following year. In the case of the EFTA-EEA countries, the volume of appropriations carried over from year n to year $n+1$ is known after the accounts have been closed. As a result the calculation of the balance includes carryovers of appropriations from year $n-1$ to year n .

The following are added to or deducted from the resulting figure:

- the net balance of cancellations of payment appropriations carried over from previous years and any payments which, because of fluctuations in the euro rate, exceed non-differentiated appropriations carried over from the previous year;
- the balance of exchange-rate gains and losses recorded during the year.

The budget outturn is returned to the Member States the following year through deduction of their amounts due for that financial year.

Appropriations carried over from the previous financial year in respect of contributions by and work for third parties, which by definition never lapse, are included with the additional appropriations for the financial year. This explains the difference between carryovers from the previous year in the 2008 budget implementation statements and those carried over to the following year in the 2007 budget implementation statements. The payment appropriations for re-use and appropriations made available again following the repayment of payments on account are disregarded when calculating the outturn for the year.

The EFTA-EEA part of the payment appropriations carried over by the Communities from 2008 to 2009 could not be included in the 2008 balance as this is subject to the approval by EFTA of the amounts in question, and this will not be given until mid-2009.

The payment appropriations carried over include: automatic carryovers and carryovers by decision. It also includes the increase of appropriations on earmarked revenue as appropriations not used at the end of the year shall be carried over automatically. The cancellation of unused payment appropriations carried over from the previous year now shows only the cancellations on appropriations carried over automatically and by decision.

2.1.2 Reconciliation of the budget outturn with the economic outturn 2008

The economic outturn for the year presented on page 14 is calculated on the basis of accrual accounting principles. The budget outturn is however based on modified cash accounting rules, in accordance with the Financial Regulation. As both are the result of the same underlying transactions, it is a useful control to ensure that they are reconcilable. The table below shows this reconciliation, highlighting the key reconciling amounts, split between revenue and expenditure items.

RECONCILIATION: ECONOMIC OUTTURN – BUDGET OUTTURN 2008

	EUR millions	
	2008	2007
ECONOMIC OUTTURN FOR THE YEAR	12 686	7 462
Revenues		
Entitlements established in current year but not yet collected	(4 685)	(5 036)
Entitlements established in previous years and collected in current year	3 485	2 543
Accrued revenue (net)	(724)	(1 068)
Expenditure		
Accrued expenses (net)	6 353	8 814
Expenses prior year paid in current year	(219)	(3 635)
Net-effect pre-financing	(16 446)	(6 810)
Payment appropriations carried over to next year	(3 914)	(3 116)
Payments made from carry-overs & cancellation unused payment appropriations	1 182	1 171
Movement in provisions	4 316	1 395
Other	(88)	(33)
Economic outturn result agencies + CECA	(136)	(145)
BUDGET OUTTURN FOR THE YEAR	1 810	1 542

Reconciling items - Revenue

The actual budgetary revenue for a financial year corresponds to the revenue collected from entitlements established in the course of the year and amounts collected from entitlements established in previous years. Therefore the **entitlements established in the current year but not yet collected** are to be deducted from the economic outturn for reconciliation purposes as they do not form part of budgetary revenue. On the contrary the **entitlements established in previous years** and collected in current year must be added to the economic outturn for reconciliation purposes.

The **net accrued revenue** mainly consists of accrued revenue for agricultural levies, own resources and interests and dividends. Only the net-effect, i.e. accrued revenue for current year minus reversal accrued revenue from previous year, is taken into consideration.

Reconciling items - Expenditure

The **net accrued expenses** mainly consist of accruals made for year-end cut-off purposes, i.e. eligible expenses incurred by beneficiaries of Community funds but not yet reported to the EC.

While accrued expenses are not considered as budgetary expenditure, the payments made in the **current year relating to invoices registered in prior years** are part of current year's budgetary expenditure.

The **net effect of pre-financing** is the combination of (1) the new pre-financing amounts paid in the current year and recognised as budgetary expenditure of the year and (2) the clearing of the pre-financing paid in current year or previous years through the acceptance of eligible costs. The latter represent an expense in accrual terms but not in the budgetary accounts since the payment of the initial pre-financing had already been considered as a budgetary expenditure at the time of its payment.

Besides the payments made against the year's appropriations, the appropriations for that year that are **carried to the next year** also need to be taken into account in calculating the budget outturn for the year (in accordance with Article 15 of Regulation No 1150/2000). The same applies for the budgetary payments made in the current year from **carry-overs and the cancellation of unused payment appropriations**.

The **movement in provisions** relate to year-end estimates made in the accrual accounts (employee benefits mainly) that do not impact the budgetary accounts. **Other reconciling amounts** comprise different elements such as asset depreciation, asset acquisitions, capital lease payments and financial participations for which the budgetary and accrual accounting treatments differ.

Finally the economic outturn of the **agencies and the CECA** that are included in the consolidated economic outturn need to be excluded since their budgetary execution is not part of the consolidated budget outturn.

2.2 COMPARISON OF BUDGET AND ACTUAL AMOUNTS 2008 (TABLE 2)

The amount of payment appropriations in the initial adopted budget, signed by the President of the European Parliament on 18 December 2007, was fixed at EUR 120 347 million, to be financed by own resources amounting to EUR 118 922 million. It should be noted that the revenue and expenditure estimates in the initial budget are subject to adjustment during the budgetary year, such modifications being presented in amending budgets. Adjustments in the Member States GNI-based own resources payments ensure that budgeted revenue matches exactly budgeted expenditure. In accordance with the principle of equilibrium, budget revenue and expenditure (payment appropriations) must be in balance.

Revenue:

During 2008 ten amending budgets were adopted. Their impact on the revenue side of the 2008 budget resulted in a total final revenue of EUR 115 771 million. This was financed by own resources totalling EUR 108 323 million (thus EUR 10 599 million less than initially forecasted) and the remainder by other revenue. The reduced need for own resources was due to various factors such as the inclusion of EUR 1 529 million relating to the surplus of the previous year as well as fines imposed on Microsoft and resulting bank interest totalling to EUR 849 million. Finally, the combined effect of a decrease in payment appropriations and an increase in the forecast of revenue in the Amending Budget no. 9/2008 resulted in a supplementary reduction of the GNI resources of EUR 6 936 million.

As far as the own resources are concerned, it should be noted that the collection of traditional own resources reached 102% of forecast amounts. This is explained by the fact that the budgetary estimates were modified at the time the Amending Budget No. 5/2008 was established (they were decreased by EUR 212 million) and also at the time the Amending Budget No. 9/2008 was established (they were decreased by EUR 1 600 million). These adjustments were based on one hand on the new macroeconomic forecasts of spring 2008, being less optimistic than the previous ones, and on the other hand on the evolution of the contributions.

The final Member States' VAT and GNI payments also corresponded very closely to the final budgetary estimate. The differences between the forecasted amounts and the amounts actually paid are explained by the differences in the euro rates used for budgetary purposes and the rates in force at the time when the Member States, not part of the EMU, actually made their payments.

Expenditure:

The 2008 Budget was still reflecting the transition from one Financial Framework to the next. Commitment appropriations were in line with the spending orientations agreed for the new programming period 2007 – 2013, whereas payment claims to a large extent still related to the 2000 – 2006 Financial Framework. The share of disbursements for major new multi-annual programmes is expected to increase rapidly from 2009 onwards.

Regarding commitments, the implementation rate was 99% in comparison with the final budget (99.4% excluding the unused reserve for Globalisation Fund) and 100.2% in comparison with the initial budget. Even in cases of programmes in the Area of Freedom, Security and Justice where the actual implementation rate was the lowest of all Headings, implementation reached 99% after the carryovers.

The increase of the final budget compared to the initial was less than 1%. The reinforcement through amending budgets totalled EUR 1 421 million, consisting mainly of the planned reprogramming of the European Regional Development Fund (ERDF), European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) amounting to EUR 771 million, whereas EUR 280 million was allocated to the European Solidarity Fund which is by nature unforeseeable expenditure, and EUR 240 million reinforcement of the Emergency Aid reserve for the needs of the new Food Facility instrument.

Payments made corresponded to 93% of the initial budget – an implementation rate of 97% of available appropriations was eventually reached after a reduction of total payment appropriations by 4% and some significant transfers between Financial Framework Headings.

The major reductions were needed for Structural and Cohesion Funds (EUR 4 515 million or 11% of available appropriations), as interim payments were still subject to the Commission's approval of the management and control systems for Structural Funds projects and to proposals for major projects under the Cohesion Fund which Member States have to submit, for Heading 4 (EUR 265 million or 3% of available appropriations split all over the Heading) and a decrease of EUR 21 million in the current reserve for International Fisheries Agreements.

The detailed analysis of budgetary adjustments, their relevant context, their justification and their impact is presented in Commission's Report on Budgetary and Financial Management 2008, Part A overview at budget level and Part B dealing with each Financial Framework Heading.

2.3 REVENUE (TABLE 3)

The revenue of the general budget of the European Communities can be divided into two main categories: own resources and other revenue. This is laid down in Article 269 of the Treaty establishing the European Communities, which states that: "Without prejudice to other revenue, the budget shall be financed wholly from own resources." The main bulk of budgetary expenditure is financed by own resources. Other revenue represents only a minor part of total financing.

There are three categories of own resources: traditional own resources, the VAT resource and the GNI resource. Traditional own resources, in turn, comprise agricultural duties, sugar levies and customs duties. A correction mechanism in respect of budgetary imbalances is also part of the own resources system.

The allocation of own resources is made in accordance with the rules laid down in the Council Decision No. 2000/597/EC, Euratom of 29 September 2000 on the system of the European Communities' own resources. On 1 March 2009 a new own resources decision, No 2007/436/EC, Euratom of 7 June 2007, entered into force. This decision takes effect on 1 January 2007. However its financial impact will be seen from the financial year 2009 onwards as the retroactive effects will be taken only in account in the budgetary year 2009.

2.3.1 *Traditional own resources*

Traditional own resources: All established amounts of traditional own resources must be entered in one or other of the accounts kept by the competent authorities.

- In the ordinary account provided for in Article 6(3)(a) of Regulation No 1150/2000: all amounts recovered or guaranteed.
- In the separate account provided for in Article 6(3)(b) of Regulation No 1150/2000: all amounts not yet recovered and/or not guaranteed; amounts guaranteed but challenged may also be entered in this account.

For the separate account, the Member States send the Commission a quarterly statement that includes:

- the balance to be recovered during the previous quarter,
- the amounts recovered during the quarter in question,
- rectifications of the base (corrections/cancellations) during the quarter in question,
- amounts written off,
- balance to be recovered at the end of the quarter in question.

The information sent in by the Member States does not allow the amounts recovered during the year to be assigned to the year in which the entitlements arose. Hence the column for amounts received against carryovers in the table “Summary of the implementation of general budget revenue, 2008” includes amounts received during the year and the amount of entitlements cancelled and replaced by the new amount of entitlements declared by the Member States when making their new statement. A value reduction is applied to own resources entitlements.

When the traditional own resources from the separate account are recovered, they must be entered in the Commission’s account with the treasury or the body appointed at the latest on the first working day following the 19th day of the second month following the month during which the entitlement was recovered. Member States retain, by way of collection costs, 25% of traditional own resources.

2.3.2 *VAT-based resources and GNI-based resources*

VAT-based own resources derive from the application of a uniform rate, for all Member States, to the harmonised VAT base determined in accordance with the rules of Article 2(1)(c) of the Council Decision of 29 September 2000. The VAT base is capped at 50% of GNI for all Member States.

The GNI-based resource is a variable resource intended to supply the revenue required, in any given year, to cover expenditure exceeding the amount collected from traditional own resources, VAT resources and miscellaneous revenue. The revenue derives from the application of a uniform rate to the aggregate GNI of all the Member States.

VAT and GNI-based resources are determined on the basis of forecasts of VAT and GNI bases made when the preliminary draft budget is being prepared. These forecasts are subsequently revised; the figures are updated during the budget year in question by means of an amending budget.

The actual figures for the VAT and GNI bases are available in the course of the year following the budget year in question. The Commission calculates the differences between the amounts due by the Member States by reference to the actual bases and the sums actually paid on the basis of the (revised) forecasts. These VAT and GNI balances, either positive or negative, are called in by the Commission from the Member States for 1 December of the year following the budget year in question. Corrections may still be made to the actual VAT and GNI bases during the subsequent four years, unless a reservation is issued. The balances calculated earlier are adjusted and the difference is called in at the same time as the VAT and GNI balances for the previous budget year.

When conducting controls of VAT statements and GNI data, the Commission may notify reservations to the Member States regarding certain points which may have consequences to their own resources contributions. These points, for example, may result from an absence of acceptable data, or a need to develop a suitable methodology. These reservations have to be seen as potential claims on the Member States for uncertain amounts as their financial impact cannot be estimated with accuracy. When the exact amount can be determined, the corresponding VAT and GNI-based resources are called either in connection with VAT and GNI balances or by individual calls for funds.

2.3.3 UK correction

This mechanism reduces the own resources payments of the UK in proportion to what is known as its “budgetary imbalance” and increases the own resources payments of the other Member States correspondingly. The budgetary imbalance correction mechanism in favour of the United Kingdom was instituted by the European Council in Fontainebleau (June 1984) and the resulting Own Resources Decision of 7 May 1985. The purpose of the mechanism was to reduce the budgetary imbalance of the UK through a reduction in its payments to the Communities.

Further information on the implementation of revenue can be found in the Report of Budgetary and Financial Management 2008.

2.3 EXPENDITURE (TABLES 4 TO 13)

2.3.1 Financial Framework 2007-2013

EUR millions

	2007	2008	2009	2010	2011	2012	2013
1. Sustainable Growth	53 979	57 653	59 700	61 782	63 638	66 628	69 621
2. Preservation & management of natural resources	55 143	59 193	59 639	60 113	60 338	60 810	61 289
3. Citizenship, freedom, security & justice	1 273	1 362	1 523	1 693	1 889	2 105	2 376
4. EU as a global partner	6 578	7 002	7 440	7 893	8 430	8 997	9 595
5. Administration	7 039	7 380	7 699	8 008	8 334	8 670	9 095
6. Compensations	445	207	210	0	0	0	0
Commitment appropriations:	124 457	132 797	136 211	139 489	142 629	147 210	151 976
Total payment appropriations:	122 190	129 681	123 858	133 505	133 452	140 200	142 408

This section describes the main categories of Communities' expenditure, classified by heading of the financial framework 2007-2013. The 2008 financial year was the second covered by the financial framework 2007-2013. The overall ceiling on commitments appropriations for 2008 comes to EUR 132 797 million, equivalent to 1.06 % of GNI. The corresponding ceiling on the appropriations for payments comes to EUR 129 681 million, i.e. 1.03 % of GNI. The above table shows the financial framework at current prices estimated for 2013.

Heading 1 – Sustainable growth

This Heading divided into two separate, but interlinked components:

- 1a. Competitiveness for growth and employment, encompassing expenditure on research and innovation, education and training, trans-European networks, social policy, the internal market and accompanying policies.
- 1b. Cohesion for growth and employment, designed to enhance convergence of the least developed Member States and regions, to complement the EU strategy for sustainable development outside the less prosperous regions and to support inter regional cooperation.

Heading 2 – Preservation and management of natural resources

Heading 2 includes the common agricultural and fisheries policies, rural development and environmental measures, in particular Natura 2000. The amount earmarked for the common agricultural policy reflects the agreement reached at the Brussels European Council in October 2002.

Heading 3 – Citizenship, freedom, security and justice

The new heading 3 (Citizenship, freedom, security and justice) reflects the growing importance attached to certain fields where the Union has been assigned new tasks – justice and home

affairs, border protection, immigration and asylum policy, public health and consumer protection, culture, youth, information and dialogue with citizens. It is split in two components:

- 3a. Freedom, Security and Justice
- 3b. Citizenship

Heading 4 – The EU as a global partner

Heading 4 covers all external action, including pre-accession instruments. Whereas the Commission had proposed to integrate the European Development Fund (EDF) into the financial framework, the European Council and the European Parliament agreed to leave it outside.

Heading 5 – Administration

This heading covers administrative expenditure for all institutions, pensions and the European Schools. For the Institutions other than the Commission, these costs make up the total of their expenditure, but the Agencies and other bodies make both administrative and operational expenditure.

Heading 6 – Compensations

In accordance with the political agreement that the new Member States should not become net-contributors to the budget at the very beginning of their membership, compensation was foreseen under this heading. This amount was available as transfers to them to balance their budgetary receipts and contributions.

2.3.2 Policy areas

As part of its use of Activity Based Management (ABM) the Commission implements Activity Based Budgeting (ABB) in its planning and management processes. ABB involves a budget structure in which budget titles correspond to policy areas and budget chapters to activities.

ABB aims to provide a clear framework for translating the Commission's policy objectives into action, either through legislative, financial or any other public policy means. By structuring the Commission's work in terms of activities, a clear picture is obtained of the Commission's undertakings and simultaneously a common framework is established for priority setting. Resources are allocated to priorities during the budget procedure, using the Activities as the building blocks for budgeting purposes. By establishing such a link between activities and the resources allocated to them, ABB aims to increase efficiency and effectiveness in the use of resources in the Commission.

A policy area may be defined as a homogeneous grouping of Activities constituting parts of the Commission's work, which are relevant for the decision-making process. In total 31 policy areas have been identified, each policy area corresponding, in general, to a DG, and encompassing an average of about 6 or 7 individual Activities. These policy areas are predominantly operational, since their core activities aim at benefiting a third-party beneficiary, each within their respective

domains of activity. The operational budget is completed with the necessary administrative expenditure for each policy area.

Further information on the implementation of expenditure can be found in the Report of Budgetary and Financial Management 2008.

2.4 INSTITUTIONS AND AGENCIES (TABLES 14 TO 18)

The consolidated reports on the implementation of the general budget of the European Communities include, as in previous years, the budget implementation of all Institutions since within the Communities' budget a separate budget for each Institution is established.

Agencies do not have a separate budget inside the Communities' budget and they are partially financed by a Commission budget subsidy. In order to provide all relevant budgetary data for the Agencies, the budgetary part of the consolidated annual accounts include separate reports on the implementation of the individual budgets of the traditional agencies consolidated. Those reports are:

- A table on budgetary income, indicating the amount received from the Commission budget;
- Two tables on budgetary expenditure (commitments, payments) giving the detail by agency and splitting budget and additional appropriations;
- At the bottom of each table a sub-total has been inserted that gives information on the Agencies total financial impact by type of expenditure/income;
- A budget outturn table, adding the Agencies' budget result to the Communities' result (by eliminating subsidies paid from Communities' expenditure and subsidies received as Agencies revenue).